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MBA PROFESSIONAL REPORT

INCREASE THE GOVERNMENT PURCHASE CARD LIMIT

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13. ABSTRACT (maximum 200 words)

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When it was established in 1989, the government purchase card program's transaction limit was $2,000. In 1994, legislation established the $2,500 micropurchase limit for supplies and services because the General Service Administration determined that 85% of contracts written were below $2,500. The $2,000 limit for construction continues as set by the Davis-Bacon Act of 1931, which was written before establishment of the minimum wage and has never increased for inflation. That $2,000 limit from 1931 currently has a buying power of $128 and, to meet the intent of the law, should be applied only to construction projects over $31,194.

The purpose of this project is to explore the decision to increase the purchase card transaction limit. This project examines the regulations, risks, and concerns regarding an increase in the transaction limit. This research recommends that the government purchase card transaction limit be increased to between $8,000 and $13,000.

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INCREASE THE GOVERNMENT PURCHASE CARD LIMIT

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LIST OF ACRONYMS AND ABBREVIATIONS

APC   Agency Program Coordinator

ATG   Afloat Training Group

AO   Approving Official

ASN (RDA)   Assistant Secretary of the Navy for Research, Development and Acquisition

BPA   blanket purchase agreement

CCPMD   Consolidated Card Program Management Division

COTS   commercial, off-the-shelf

CPI   consumer price index

DAU   Defense Acquisition University

DFARS   Defense Federal Acquisition Regulation Supplement

DFAS   Defense Finance and Accounting Service

DOD   Department of Defense

DPAP   Defense Procurement and Acquisition Policy

DRMA   data mining and risk assessment

EMALL   electronic mall

FAR   Federal Acquisition Regulation

FASA   Federal Acquisition Streamlining Act

FIAR   Financial Improvement and Audit Readiness

FY   fiscal year

FLC   Fleet Logistics Center

FTE   full time equivalent

FDM   Funding Document Manager

GSA   General Service Administration

GAO   Government Accountability Office

GPC   government purchase card

HAZMAT   hazardous material

ID/IQ   indefinite delivery/indefinite quantity

IMPAC   International Merchant Purchase Authorization Card

INSURV   Board of Inspection and Survey

IOP	internal operating procedures
IRB	institutional review board
MCC	merchant category codes
MOP	method of payment
NAVSUP	Naval Supply Systems Command
NEC	navy enlisted classification
OMB	Office of Management and Budget
OIG	Office of the Inspector General
OMMS–NG	Operational Maintenance Management System–Next Generation
OPM	Office of Personnel Management
OUSD (AT&L)	Office of the Under Secretary of Defense for Acquisition, Technology and Logistics
PCOLS	Purchase Card On-Line System
PGI	procedures, guidance, and information
PII	personally identifiable information
PPMAP	Procurement Performance Management Assessment Program
PAT	Program Audit Tool
PCPMO	Purchase Card Program Management Office
RSUPPLY	Relational Supply
SAP	simplified acquisition procedures
SAT	simplified acquisition threshold
SME	subject matter expert
TYCOM	type commander

I. INTRODUCTION

The government purchase card (GPC) transaction limit needs to be increased to between $8,000 and $13,000 in order to keep up with inflation and to allow contracting resources to focus their attention on larger, more complex contracts. Adjusted for inflation, the $2,500 micropurchase limit set by the Federal Acquisition Streamlining Act (FASA) of 1994 would only have the purchasing power of $1,562.82 today, according to the Consumer Price Index (CPI) (CoinNews, 2014). Simply to maintain the intended purchasing power, the micropurchase limit should be increased to $4,000 (CoinNews, 2014); however, greater efficiencies would be realized if the limit was set between $8,000 and $13,000.

The purpose of this project is to explore the possibility of increasing the purchase card transaction limit and determine if it is feasible to make the changes. This project will examine the regulations, risks, and concerns regarding an increase in the transaction limit of the purchase card.

This research is important because fiscal constraints continue to reduce the funding to the Department of Defense (DOD) and the spotlight is back on acquisition reform as inefficiencies after a decade of war become an easy target of government wastefulness. An increase in the purchase card limit would result in greater mission readiness in addition to cost savings in the acquisition process. The more autonomy allowed to the operational units, the more efficient the acquisition process can become.

A. RESEARCH QUESTIONS

The purchase card "was established to streamline federal agency acquisition processes by providing a low cost, efficient vehicle for obtaining goods and services directly from vendors" (GAO, 2003b, p. 4). "Specifically, the purchase card enables agencies to expedite purchases, streamline payment procedures, and reduce administrative costs" (OIG, 2003, p. 1) by "[lowering] transaction purchasing costs and [reducing] red tape for both the government and the vendor community" (GAO, 2002, p. 1) to simplify the process for small-dollar transactions, which use up a disproportionate

amount of resources for their small dollar value. By not allowing the purchase card limit to increase with inflation, or some other index, the government is not using its resources efficiently or effectively.

The primary research question: Is it feasible to update or create regulations to increase the purchase card limit higher than the current $3,000?

1.   According to the Government Accountability Office (GAO), "the convenience of the purchase card must be balanced against the time and cost involved with training, monitoring and oversight of cardholders" and "limiting credit available is a key factor in minimizing government financial exposure" (GAO, 2002, pp. 11, 15). At what transaction level does the risk of misuse outweigh the cost of added oversight?

2.   What are the current protocols for the purchase card and what is the basis for those protocols?

3.   How is the purchase card used and managed in industry? Are government purchase card programs in line with what industry is doing?

4.   What specific findings and recommendations can be made for increasing the threshold, if warranted?

B.   METHODOLOGY

To obtain more information, this study began with a thorough review of related reports and articles that have been written about the GPC and gathered data from various knowledgeable government sources. A thorough literature review of GAO and Office of the Inspector General (OIG) reports related to purchase cards, along with other various reports, articles and studies related to purchase cards, contracting, and acquisition was conducted. The specific documents are discussed and referenced in Chapter II. Despite all this available information, it was determined that current, real-time data was needed to determine how encompassing this issue really is, and to analyze the efficacy of the programs in place.

In order to get an accurate picture of current contract and purchase card purchasing practices, this study determined that data needed to be collected from (1) contracting sources to find out how many contracts are written; (2) the purchase card

program to find out how many purchases are made on the purchase card; and (3) the Procurement Performance Management Assessment Program (PPMAP) office to determine what kinds of purchase card programs are possible and how common they are. These sources provided ample data to analyze, but left more questions.

This study needed to look more specifically at how operational units use these purchasing vehicles, how the Fleet Logistics Center (FLC) process works, and how purchase card programs work in industry. Supplementary information was requested from (1) operational units to determine how large the purchase card programs were and how frequently an operational unit required a contract, (2) contracting sources to determine what the process of a contract is and how much manpower each piece of the process takes, and (3) PPMAP and Afloat Training Group (ATG) to determine how the purchase card program is audited and how much misuse the government program currently experiences. Once this secondary research was complete, curiosity was aroused about (1) how for-profit companies use and manage their purchase card programs, how they determine risk, and what internal controls they employ and (2) how banks determine risk and how they set up their commercial purchase card programs. These findings were compiled, analyzed, and presented to several high-level parties in the contracting and purchase card arena. They were then asked for their reactions and concerns about the purchase card program. The responses from these high-level program participants became a critical part of this research.

1. Initial Research

In order to get a basic understanding of the topic, a search for reports and articles related to purchase cards, contracting, and federal procurement was conducted. This initial research helped to build a big-picture view about the challenges, concerns, and changes that have affected the purchase card in the past. These historical accounts were very valuable resources, as they spelled out concerns that need to be addressed for future controls and procedures. This initial research consisted mostly of GAO and OIG reports (see Chapter II Literature Review), as they provided specific background information for the topic; however, several journal articles were included to outline the history of contracting and the purchase card.

2. Research Data

In order for this research project to answer the questions about the effectiveness of the current purchase card and contracting programs, there was a great deal of data to gather from the contracting and purchase card users, as well as those who provide oversight. There was some readily available data, but much of the data needed to be collected from subject matter experts (SME) in the process on an individual basis. All the data collected has been considered normal business data and contains no personally identifiable information (PII), nor proprietary information. The purpose of this data analysis was to see how the purchase card program compares to the contract program and to determine if there is a point at which they can complement each other, working together to make the operational units more successful.

a. Design of the Research

The research was designed to get a broad look at users of the purchase card and its stakeholders. For example, there are those who use the purchase card, those who oversee the purchase card use, and those who audit the purchase card. Each of the stakeholders can provide data about how extensively a purchase card or contract is used at a particular unit vs. Navy-wide. Those who oversee these programs have a big picture understanding of the impact of various regulations and laws.

b. Data Collection

In order to get a proper view of all the stakeholders in the purchase card program, data was collected from operational users, a contracting office, purchase card auditors, industry purchase card managers, a bank executive whose position supports commercial card programs, managers who oversee the purchase card program, and those who own the purchase card program.

The most important data for this study was readily available from FLC and the Consolidated Card Program Management Division (CCPMD). This data provided key information on how broad the purchase card and contract programs are in the Navy.

(1)   FLC provided four years of data on all contracts completed at the FLCs between fiscal years (FY) 10–13. The data was analyzed to determine if there were obvious breaks in the data that would support a new purchase card limit recommendation.

(2)   The CCPMD is the program and policy arm of all card programs in the Navy. The purchase card division provided data about the number of current cardholders and the breakdown of Navy purchase card purchases for the last four years. This important information could be compared to the contract data. At various cost levels, it needed to be determined how the workload is spread between the purchase card and contract programs.

(3)   Information was requested from PPMAP about variations of authority that are possible with a purchase card and what percentage of users there are at each level of authority.

After getting the data from the contract and purchase card offices, it was determined that there was more information needed and the project should expand to include specific information from more stakeholders. Data from operational units was needed that presented contract and purchase card spending; and data from the FLC about how the contract process works needed to be collected. It was important to find out what the individual steps of the contracting process are and map out the timeframes involved. The auditors of the purchase card program could also provide valuable information about purchase card misuse and the auditing process. Although this author has an operational background, it was necessary to get a broader range of experiences from other Supply Officers currently in the fleet.

(4)   To get the operational perspective, shipboard Supply Officers were contacted because they have a standard contact format, whereas shore duty Supply Officers can only be contacted by name. These shipboard Supply Officers were asked to provide data about how many Approving Officials (AO) and how many cardholders are in their program, the average monthly purchase card purchases, and how many and the dollar amount of contracts that were sent to FLC between FY10–13. This information was required to determine how large a typical ship purchase card program is and how frequently contracts were utilized at the operational level.

(5)   A guided walk-through tour of the contracting process at FLC was conducted to better understand the process and the manpower involved in getting a contract in place. The process walk-through began as soon as the requesting unit entered

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the contract request in the Funding Document Manager (FDM) system and ended when the contract was signed and released to the requestor and vendor. This data was collected to determine what occurs at each step in the process, how long each step takes, and how many steps are involved.

(6)   Data was collected from the PPMAP personnel to learn about misuse in the Navy purchase card program and to obtain the history of auditing in the Navy card program.

(7)   Data was collected from the ATG, the auditors of the shipboard purchase card programs, in order to understand the limitations, issues, and operational effects of the purchase card.

After collecting the data from the FLC, operational Supply Officers, and the purchase card program auditors, it was determined that there was still more information needed to ensure a thorough examination of the issues and processes at hand. It was unclear how for-profit businesses used their purchase cards and how a bank determined if they would support a purchase card program. It was important to understand how the nuances of a purchase card that uses taxpayer dollars might compare with industry which focuses on profits and how the banks would look at the differences.

(8)   Financial managers in industry were contacted to get detailed information about their credit card programs. Data was collected from four companies that are similar to the government in that they do not manufacture or sell a physical product, are capital intensive, manpower heavy, and are primarily in the business of movement and/or service. Representatives from an airline, a trucking company, a community college, and an engineering company were interviewed. Data was collected about what controls are utilized and how many cardholders are in their programs, how much flexibility is given to cardholders, how much paperwork is required, and how the reconciliation process works. This project allowed a comparison between how industry uses the purchase card against the government's methods of running the purchase card program.

(9)   Information was collected from one of the banks that administers federal government commercial purchase card programs to determine what, if any, internal controls they require when a new commercial purchase card program is established. They

were asked what safeguards are in place to protect themselves and how they mitigate the risk of a new or existing program. This data was collected to determine if the current controls in place are the result of the bank requirements or if they are government-established.

(10) Upon completion of the preceding nine data collection areas, this research and analysis provided a stronger case to present to administrators who could change policy. Leaders and policy-makers in the credit card and contracting fields were contacted to discuss the various findings in order to understand and answer high-level concerns regarding the research. Personnel contacted were a type commander (TYCOM) Comptroller, ATG (auditors of afloat purchase card programs), FLC contract manager (who oversees those who produce contracts for the fleet), two CCPMD Managers (oversees training and policies for the Navy), a Naval Supply Systems Command (NAVSUP) contracting representative, a Small Business Administration advocate, and the Under Secretary of Defense for Acquisition, Technology and Logistics (USD (AT&L)) Defense Procurement and Acquisition Policy (DPAP), the office who owns the DOD purchase card program policy.

C. SCOPE

Although the GPC is a government-wide procurement device, the scope of this project was limited to the Navy, both for ease of information/data access and familiarity with the process. In some cases, the scope is limited further to operational Naval support, due to the consistent communication possibilities for the shipboard Supply Officer which is not available to other types of commands and because the operational units are the ones who often have the greatest time constraints and limitations.

The purchase information contained in this research project does not consider the significant number or amount of purchases procured through the stock system.

For the industry comparison companies, companies that had little or no international presence were selected for interview. As companies become very large or international, their corporate financial offices became too difficult to reach using contact information available to a consumer. Additionally, several large, international companies

were contacted who understood what was requested, but they were unwilling to share even basic information. A personal contact was obtained for an engineering company, which was by far the largest company interviewed.

D.   IRB PROTOCOL

Institutional review board (IRB) protocol was established to ensure that any research conducted for a study does not produce adverse effects (cause harm) to the study subjects. Following IRB protocol, Supply Officers, industry procurement officials, bankers, and FLC personnel were contacted to collect data related to this study. Since normal business data that did not contain personal data was being collected, special permission from the participants and signed consent waivers were not required. Care was taken to not collect any PII and to code or prepare the data and notes so they could not be associated to a particular person. There were also some entities that specifically requested to be referred to in generic terms within the project.

Following a stricter IRB protocol, when the findings and recommendations were discussed in interview with the leadership and policy-makers within the credit card and contracting arena, a consent waiver was obtained that specifically requested permission to quote interview responses in this report. These subjects were asked for their reactions and concerns, which are considered opinions; because they may be more easily identifiable as individuals due to the positions they hold, the subjects' interview notes were typed up and presented to them for verification before publication to avoid misrepresentation.

E.   WHAT TO EXPECT

The GPC has been around for nearly 30 years and the program has not been keeping up with inflation, thereby losing purchasing power each year. This project intends to prove that the controls in place are effective and the technologies available are making oversight more manageable than ever.

In Chapter II, the reader will be provided with a brief history of the purchase card program, a literature review of current and past reports and articles that pertain to the topic of acquisition and the purchase card, and a summary of the provided data in order to show that a problem exists.

In Chapter III, there will be a presentation of the data collected and the interviews conducted to further enlighten the subject. This will show that there are a significant number of stakeholders in the process.

In Chapter IV, the data will be combined, analyzed, and interpreted to explore the issue further.

Chapter V will summarize the entire project and make recommendations for implementation of the decision.

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II.   BACKGROUND

In Chapter I, this project introduced the idea of increasing the purchase card transaction limit and posed the question of risk, protocols, and comparison to industry. However, before we can discuss the future of the purchase card program, we should review the past. This chapter will discuss a brief history of the purchase card and legislative changes, summarize relevant historical and current literature about the purchase card and program management and present the main data collected and used to summarize the issue of increasing the purchase card transaction limit.

The government purchase card (GPC) program has been in place for more than twenty-five years. Introduced to government agencies in the late 1980s, the intent was to minimize paperwork and administrative costs for smaller purchases (GAO, 2002).

During the first five years, purchase card use was slowly growing, until a National Performance Review in 1993 recommended that government agencies move as much business as possible to the purchase card (Gupta & Palmer, 2008). The Federal Acquisition Streamlining Act (FASA) of 1994 officially established the threshold for micropurchases at $2,500 for supplies and services and eliminated most of the restrictions on procurement actions at that level (OIG, 2003); construction projects remained at $2,000, due to the restrictions within the Davis-Bacon Act of 1931 (OIG, 2007).[1]

By the early 2000s, according to various Government Accountability Office (GAO) reports, purchase card use had ballooned. Many agencies had issued nearly one-third of their personnel a purchase card. Not surprisingly, internal controls and oversight were not effective to manage such a large number of cardholders. Training at all levels was lacking. Cases of abuse and misuse touched nearly every government agency. A series of major GAO investigations recommended overhauling internal controls, especially by immediately reducing the number of cardholders and enforcing the span of

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[1] The $2,000 limit was based on the Davis-Bacon Act. Written in 1931, the Davis Bacon Act required the determination of local, prevailing wages for payment on any federal public works construction projects (Labor, 2009) exceeding $2,000 to prevent construction companies from taking advantage of workers who were willing to work for anything during the depression (GAO, 2011). Had this Act been adjusted for inflation, we would only require a wage determination at $31,100 (CoinNews, 2014).

control limitations. Since most of the controls they mentioned were already in place in the program, what they were actually recommending was more effective oversight. The specific GAO reports will be discussed in Section C: Literature Review. Between 2000 and 2002, the Procurement Performance Management Assessment Program (PPMAP) was building up their personnel to provide the needed auditing oversight. Better instructions were promulgated that put attention on issues that were lacking and formally explained how the card programs should be audited (Interview with PPMAP, 2014).

The Navy GPC program has improved tremendously since the GAO reports began surfacing more than 10 years ago. A focus on training and access to information has increased, knowledge and oversight has improved, and supporting computer systems have enabled real-time access to information.

A.   HISTORICAL CONTEXT

Executive Order 12,352 issued in 1982 required procurement reform and suggested purchase cards as a method of reducing administrative costs of buying supplies and services (Gupta & Palmer, 2008). In 1986, the Department of Commerce implemented a pilot program for the purchase card. Despite the steep learning curve, the program was a success and deemed ready for government-wide use. In 1989, General Service Administration (GSA) implemented the International Merchant Purchase Authorization Card (IMPAC) program (Gupta & Palmer, 2008), the first government-wide purchase card program. The original purchase limits for the GPC were set at $2,000 (Interview with SBA, 2014).

In 1994, FASA established the micropurchase limit at $2,500 and excused most purchases below this limit from many of the contracting restrictions, like competition. Purchasing authority using the purchase card was also given to those without contracting authority (Gupta & Palmer, 2008). Executive Order 12,931 encouraged maximum use of the FASA guidance because purchases under $2,500 made up more than 90% of federal purchase transactions, are available on the open market, usually available immediately, and do not require extensive acquisition knowledge to procure (Gupta & Palmer, 2008). These would eventually be called "commercial, off-the-shelf" (COTS) items.

In FY07, the threshold increased to the current amount of $3,000 for supplies, but services remained at $2,500 in accordance with the Service Contract Act, and construction remained at $2,000 (SHC, 2012).

B.   TIMELINE

The GCPC is the result of a number of government actions. The timeline of events and the basic impact is summarized in Figure 1.

Government Action	Year	Effect
Executive Order 12,352 "Procurement Reform"	1982	Reduce costs of procurement; implement a purchase card
Pilot Phase of GCPC	1986	Department of Commerce proposes a pilot program to test purchase cards for wider use
Government-Wide Purchase Card System	1989	International Merchant Purchase Authorization Card (I.M.P.A.C.) is established
National Performance Review (NPR) Recommendations	1993	Asked managers to make a pledge to increase use of purchase cards for small purchases
Federal Acquisition Streamlining Act (FASA); Executive Order 12,931	1994	Removed small business restrictions, created preference for commercial items, and created a micro-purchase authority for non-acquisition professionals, however must still rotate vendors
Introduction of SmartPay	1998	This GSA program replaced the IMPAC program; agencies can choose from five authorized banks to start a purchase card program
Office of Management and Budget Memo	2002	Unacceptable amounts of card misuse prompted an immediate review of all purchase card programs; turn off all cards and reissue sparingly and selectively
Bob Stump National Defense Authorization Act	2003	Limit cards issued, train cardholders, monitor card program, review transactions, establish procedures and discipline actions
Purchase Card Waste Elimination Act	2005	Find opportunities to secure discounts from vendors (a contract can combine orders from multiple activities at a discount, whereas individual cardholders may not know about a discount)
OMB A-123	2009	Specific guidance on internal controls and management of the purchase card programs

Figure 1.   Government Actions Affecting the GPC Program (after Gupta, 2008)

C. LITERATURE REVIEW

There has been a significant amount of information published about the GPC program over the last 20 years (GAO, 2003a; AGA, 2006; Gupta & Palmer, 2008). Much of the literature is in the form of internal process investigations, or GAO and Office of the Inspector General (OIG) reports, on misuse of the purchase card (GAO, 2001, 2008; OIG, 2012). Although many of these reports were written more than 10 years ago, and most of the concerns have been addressed (GAO, 2003b; OIG, 2013), they are still relevant and important to acknowledge. They are still a model for developing current and future standards. Recommendations given in the past were included as important pieces of the thought process for future dealings with the purchase card.

1. Government Accountability Office Reports

According to the website, the GAO was established in 1921 as an independent, nonpartisan agency that works for Congress. Often called the "congressional watchdog," they investigate how the federal government spends taxpayer dollars (GAO, 2014c).

There have been numerous GAO reports relating to the purchase card and they began in 2002.

GAO-01-995T PURCHASE CARDS: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse

This testimony looked at two commands in San Diego and determined that they had ineffective controls for selecting who should be issued a purchase card and what their limits should be. The lack of internal controls established an environment where cardholders were making purchases for their own benefit, purchasing items well beyond government need or relevant cost, and initiating multiple purchases to the same vendor in one day to get around purchase limits (split purchases).

Relevant Information from the Report

The specific factors that contributed to the lack of positive control environment at these two units included a proliferation of purchase cardholders, ineffective training of cardholders and certifying officers, ineffective rebate management, and a lack of monitoring and oversight. (GAO, 2001, p. 6)

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Management plays a key role in demonstrating and maintaining an organization's integrity and ethical values, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate. (GAO, 2001, pp. 5–6)

GAO-02-1041 PURCHASE CARDS: Navy Is Vulnerable to Fraud and Abuse but Is Taking Action to Resolve Control Weaknesses

In the early years of the purchase card program, the Department of Defense (DOD) was heavily promoting the use of purchase cards as a way to eliminate the paperwork burden of small purchases. However, due to inadequate internal controls, fraud, waste, and misuse became an overwhelming problem. This study looked at the effectiveness of the Navy's purchase card control environment and management, whether the internal controls were effective in providing reasonable assurance about the proper use of the purchase card, and if there were indications of potential fraud, waste, and abuse.

This GAO report found that there were too many card holders, credit limits were higher than necessary (this report identified more than 60 cardholders with a \$9.9M monthly credit limit), span of control was insufficient for proper oversight, and refresher training would be helpful.

Relevant Information from the Report

The convenience of the purchase card must be balanced against the time and cost involved in the training, monitoring and oversight of cardholders. (GAO, 2002, p. 11)

Limiting credit available to cardholders is a key factor in managing the purchase card program and in minimizing the government's financial exposure. (GAO, 2002, p. 15)

GAO-04-87G AUDIT GUIDE: Auditing and Investigating the Internal Control of Government Purchase Card Programs

This GAO report was written to provide guidance to managers for performing audits and investigations of their purchase card program. They suggest it may be useful to

have someone who is not directly involved in the purchase card program give it a more in-depth look to see how the program should be running.

Relevant Information from the Report

With the increase in purchase card use came increases in risk; revelations of significant weaknesses in internal control; and resulting in fraudulent, improper, and abusive purchases. (GAO, 2003a, p. 5)

GAO-04-156 PURCHASE CARDS: Steps Taken to Improve DoD Program Management, but actions Needed to Address Misuse

This GAO report acknowledges that DOD has taken great steps to improve processes and remove opportunities to misuse the purchase card program. While the procedures and policies have been updated with previous GAO recommendations to improve the processes taken by cardholders, there is still room in the oversight area to take more proactive action.

Relevant Information from the Report

DOD has made the most progress in establishing or modifying procedures and has comparatively more to do in the managerial or oversight-related areas. (GAO, 2003b, p. 2)

GAO-04-430 CONTRACT MANAGEMENT: Agencies Can Achieve Significant Savings on Purchase Card Buys

One of the major drawbacks of the purchase card program is the inability to capitalize on consolidated efforts. When a contract is in place, it can include discounts based on the size of the contract and every agency falling under that contract would receive benefits of the discount. However, with the purchase card program, there is less obvious bulk buying and there is little incentive for a company to reward individual purchases. Additionally, a cardholder may not realize that a particular vendor offers a discount.

Many agencies have taken initiatives to locate vendors and negotiate discounts, but the success rate varies drastically from one agency to another. For example, the Veterans' Administration has discount agreements with nearly 20% of its common vendors, but the Department of Transportation has no agreements (GAO, 2004).

Relevant Information from the Report

Most agencies have not more aggressively pursued savings through the purchase card because a lack of management focus–simply put, the issues have not been the center of attention for managers. Furthermore, the Office of Management and Budget (OMB) has not leveraged its governmentwide oversight role by collecting and disseminating information on the successful initiatives that some agencies have undertaken. (GAO, 2004, para. 2)

Agency officials also express concerns that imposing additional requirements on cardholders would undermine the program's intent to streamline acquisition and that pursuing discount agreements with large suppliers would limit their ability to provide opportunities for small businesses. (GAO, 2004, para. 2)

To encourage agencies to begin taking steps to capitalize on opportunities for savings through the purchase card program, we are making recommendations to the OMB, GSA and the Departments of Agriculture, Defense, the Interior, Justice, Transportation and Veteran's Affairs concerning actions that could be taken to increase management attention on purchase card pricing issues, such as negotiating discount agreements with major vendors, improving cardholder training, and developing mechanisms for evaluating cardholders buying practices to assess whether cardholders are receiving favorable pricing. (GAO, 2004, p. 4)

GAO-08-333 GOVERNMENTWIDE PURCHASE CARDS: Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper and Abusive Purchases

Four to six years after the first GAO reports that focused on the lack of internal controls within the government purchase card program, they are still finding multiple agencies with inadequate internal controls and purchase card management programs. Basically, agencies are still buying more than the mission requires, paying more than they should, not documenting the purchases, and unable to locate items purchased in the past.

Relevant Information from the Report

41 percent of transactions were not properly authorized and there was no evidence that the goods and services were received by an independent party. (GAO, 2008, p. 5)

Because of the position of the public trust held by federal employees, Congress and the American people expect cardholders and Approving Officials (AO) to maintain stewardship over the federal funds at their disposal. Specifically, purchase cardholders and AOs are expected to follow published acquisition requirements and exercise a standard of care in acquiring goods and services that is necessary and reasonable (i.e., not

extravagant or excessive) for the proper operation of an agency. Because every federal dollar that is spent on fraudulent, improper, and abusive purchases is a dollar that cannot be used for necessary government goods and services; ensuring that purchase cards are used responsibly is of particular concern at a time when the United States is experiencing substantial fiscal challenges. (GAO, 2008, p. 1)

According to the GSA, the purchase card program has substantially improved procurement efficiencies, which resulted in about $1.8 billion in annual savings, as compared to prior paper-based procurement processes. GSA also asserted that in FY07, the five credit card banks provided government agencies with refunds exceeding $170 million from card activity. (GAO, 2008, p. 2)

GAO-11-152 DAVIS-BACON ACT: *Methodological Changes Needed to Improve Wage Survey*

There are issues and lack of transparency in how the Department of Labor determines prevailing wages in a given state.

Relevant Information from the Report

The David-Bacon Act was enacted in 1931, in part, to protect communities and workers from the economic disruption caused by contractors hiring lower-wage workers from outside their local area, thus obtaining federal construction contracts by underbidding competitors who pay local wage rates. Davis-Bacon generally requires employers to pay locally prevailing wages and fringe benefits to laborers and mechanics employed on federally funded construction projects in excess of $2,000. (GAO, 2011, p. 4)

GAO-14-178 FEDERAL CONTRACTING: *Commercial Item Test Program Beneficial, but Actions Needed to Mitigate Potential Risks*

This report discusses a program intended to make it easier to purchase commercial items via contract. Since commercial items are available to anyone on the open market, if these items are acceptable to fulfill the government need, then efforts to develop a new technology through the acquisition process should be avoided. Restrictions have been further removed for purchasing commercial items.

Relevant Information from the Report

GAO found that the [Commercial Item Test Program] reduced contracting lead time and administrative burdens and generally did not incur additional risks above those on other federal acquisition efforts for those GAO reviewed (GAO, 2014a, para. 2).

In 1996, Congress authorized the use of simplified acquisition procedures– previously allowed for small purchases–for commercial items not exceeding $5 million under the Test Program for Certain Commercial Items (test program). Based on the premise that market forces would ensure reasonable prices for commercial items, the test program aimed to simplify the contracting process by providing contracting officers with additional procedural discretion and flexibility for the acquisition of commercial items. Further, effective and efficient access to commercial products and services can help agencies achieve their missions and save time and administrative costs in an era of constrained budgets. (GAO, 2014a, p. 1)

2.   Department of Defense Office of the Inspector General Reports

According to the website, the DOD Office of the Inspector General (OIG) was established in 1982 and acts as the principal advisor to the Secretary of Defense in matters of DOD fraud, waste, and abuse. They accomplish this by conducting audits and investigations to ensure that the Secretary of Defense and Congress are informed of problems in the DOD (OIG, 2014).

D-2003-109: Summary Report on the Joint Review of Selected DOD Purchase Card transactions

This report emphasizes the use of data mining to enhance the oversight of the purchase card program. By using computer programs to search transactions, the data can be standardized, will be more time relevant, and will allow better tracking applications.

Relevant Information from the Report

In December 2001, the DOD OIG, the Defense Finance and Accounting Service (DFAS), and the DOD Purchase Card Program Management Office (PCPMO) agreed to initiate an automated oversight program that could identify through data mining techniques anomalies in the purchase card transaction data that might indicate potential fraud, waste or abuse. (OIG, 2003, para. 3)

Because DOD cardholders continue to misuse the purchase card, continuous monitoring of the program is needed to maintain its credibility with Congress and the American public as a cost-efficient method of procurement. To ensure proper stewardship of the resources, DOD must implement effective internal controls and

comply with established guidelines and standards. We believe effective controls can be facilitated by developing an automated oversight program using data mining techniques that can detect potentially fraudulent, wasteful, or abusive purchase card transactions. (OIG, 2003, p. 11)

Both the Navy and IG DOD envision a prototype system that would send an automated e-mail to the appropriate AO requesting additional information for assessing the appropriateness of a transaction. The AOs response to questions will populate a database, which can be used for reporting trends, identifying deficiencies and providing data for fraud or misuse improvement. (OIG, 2003, p. 9)

D-2004-076-T: *How to Save the Taxpayers Money through Prudent Use of the Purchase Card*

Again, focusing on the use of data mining, the OIG found numerous instances of fraudulent and inappropriate purchases, as well as lost opportunities to save taxpayer money by negotiating for discounts based on the frequency of purchases.

Relevant Information from the Report

Data mining is the process of analyzing data from different perspectives to identify previously unknown relationships among data, or finding correlations or patterns among data and summarizing it into useful information. (OIG, 2004, p. 9)

[Data mining will enable us to determine] which vendors we are buying from, the volume of purchases, and the types of purchases. (OIG, 2004, p. 13)

D-2007-043: *Controls over the Army, Navy and Air Force Purchase Card Programs*

Lack of internal controls over Convenience Checks (a small portion of the purchase card program), closed accounts with balances and poor retention of documentation were the main focus of this report.

Relevant Information from the Report

Although we identified management control weaknesses at each site we visited, we did not consider them material as defined by DOD Instruction 5010.40. (OIG, 2007, p. 2)

D-2009-070: Government Purchase Card Controls at United States Special Operations Command

This report determined that controls were in place at two Special Operations commands, however those charged with oversight must remain vigilant to avoid creating weaknesses where cardholders may circumvent rules (like split purchases) to complete a mission.

Relevant Information from the Report

Section 2784, title 10, United States Code required the DOD OIG to perform periodic audits of the DOD GPC Program to identify: (1) potentially fraudulent, improper, and abusive use of purchase cards; (2) any pattern of improper cardholder transactions, such as purchases of prohibited items; and (3) categories of purchases that should be made by means other than the purchase card to better aggregate purchases and obtain better prices. (OIG, 2009, p. 1)

DODIG-2012-043: Army Needs to Identify Government Purchase Card High-Risk Transactions

This report was included because it introduces the Purchase Card On-Line System (PCOLS). Similar to the Program Audit Tool (PAT) system used by the Navy, PCOLS is a DOD-wide tool for monitoring purchase card use.

Relevant Information from the Report

The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD (AT&L)) PCPMO is responsible for monitoring and issuing policy for the DOD GPC. In response to the internal control and policy compliance issues, the PCPMO assisted in developing PCOLS, an automated system created to examine and identify high-risk transactions. (OIG, 2012, p. 2)

According to DOD documentation, PCOLS is a DOD-wide suite of electronic systems that GPC officials use to improve the management and accountability within their GPC organizations. PCOLS is comprised of four primary applications: Enterprise Monitoring and Management of Accounts; Authorization, Issuance, and Maintenance; Data Mining; and Risk Assessment. (OIG, 2012, p. 2)

The Enterprise Monitoring and Management of Accounts and the Authorization, Issuance, and Maintenance applications are used to establish cardholder and AO information in the PCOLS database. The Data Mining application review, in near real-time, GPC transaction using software that identifies correlation, patterns, and trends in GPC buying actions. The Risk Assessment application uses internal controls and measures, coupled with results from the Data Mining application, to

assess and report on the overall "health" of a DOD organization's GPC program. (OIG, 2012, p. 2)

DODIG-2013-061: Improvements Needed to the Purchase Card On-Line System

This report was attempting to conduct an audit of DOD AO's to determine if they were properly reviewing purchase card transactions that the PCOLS program had flagged for further review. The audit was not successful because PCOLS could not provide the requested data. However, this article introduced the Defense Procurement and Acquisition Policy (DPAP).

Relevant Information from the Report

The DPAP was responsible for oversight and issuing policy for the DOD GPC Program. To assist DOD with internal control and policy compliance, the DPAP awarded a contract for the development of a Data Mining and Risk Assessment (DRMA) application as part of an automated system, the PCOLS, to examine transactions and identify those that were at risk of being noncompliant with laws and other criteria. (OIG, 2013, p. 1)

The DPAP developed the PCOLS to improve controls over the use of the GPC program by using a data mining process to identify potentially improper GPC transactions. (OIG, 2013, p. 2)

3. Other Reports or Articles

The Federal Purchase Card: Use, Policy and Best Practice

This report outlined the history of the purchase card implementation. The idea of the purchase card began in 1982 with an executive order to find more efficient ways to procure what the government needed. In 1986, the Commerce Department conducted the first pilot program using a purchase card, where they found that the purchase card had advantages over other procurement methods and should be expanded to include the rest of the government. In 1989, OMB turned the program over to GSA to manage because it already had government-wide purchasing authority. This action created the "IMPAC card."

Gaining momentum, in 1993, the National Performance Review noted the efficiency of the purchase card and recommended that it include all small purchases under $2,500. Many government organizations signed a pledge to expand credit card use in their organizations.

In 1994, the Federal Acquisition Streamlining Act (FASA) encouraged purchase card use, as it revised 225 statutory rules and simplified procedures for small purchases, to include commercial, off the shelf (COTS) items. These changes greatly enhanced the opportunities to use the purchase card in the federal government.

The purchase card provides many opportunities for additional savings:

Administrative savings: Per transaction cost of one method vs. another
Refunds: The credit card companies provide the government a refund based on purchase dollar volume.
Electronic Access to Data: Since credit cards are a digital system, it is possible to provide accurate, comprehensive details on transactions.
Safety: Charge cards eliminate the need for imprest funds or cash.
Worldwide Acceptance: Provides greater access to world-wide merchants.

Relevant Information from the Report

The purchase card provided a means to purchase products directly from a vendor, instead of processing requests through government procurement offices. (AGA, 2006, p. 5)

By reducing paperwork and the time involved in small purchases, both cost savings and service delivery were enhanced with the use of the purchase card. (AGA, 2006, p. 4)

It is used as a means of improving procurement efficiency by reducing or eliminating paperwork associated with requisitions, purchase orders, and invoices for small-dollar acquisition transactions. (AGA, 2006, p. 4)

Survey indicates that purchase card misuse accounts on average for .017 percent of purchase card spending at state and federal agencies, which is the equivalent of $170 of misuse for every $1 million of purchase card spending. This is lower than any other institution, including .020 percent at private and public corporations, .032 percent at universities and .091 at city and county governments. (AGA, 2006, p. 5)

Assessment of the Micro-Purchase Threshold Initiative

In 2012, the Sterling Heritage Corporation completed a report to the Program Development and Implementation Office, Defense Procurement and Acquisition Policy (DPAP) that interviewed stakeholders in contracting and purchase card positions, discussing the risks, benefits, and recommendations of increasing the purchase card transaction limit to $10,000. The premise of this study was based on the expected cost savings that DFAS might see if they no longer had to process payments to vendors for contracts below $10,000.

The purchase card limit is a current issue, continually being looked at by those wishing to cut costs and be more efficient. This report was focused on the DFAS costs of submitting payments to vendors; it did not consider potential cost savings associated with not needing to write a contract in the first place or how the time saved would impact mission readiness.

The report surmised that if the purchase limit were increased and contracting offices saw a decrease in workload, units would see a similar increase in workload. That is unlikely to happen. First, as a rule, multiple units utilize a single contracting office, so a drastic reduction in contracting workload would not equate to a drastic increase to an individual unit. Also, for a unit, the work required to initiate and complete a contract request is more complicated and time-intensive than a purchase card request (there is extra paperwork to complete, more follow-ups, and extended waiting times). Therefore, the workload in a unit may shift to another person within the unit; however, the unit will still experience an overall decrease in workload and time commitment.

Relevant Information from the Report

By removing only the less complex payments from the process, the average cost and the associated processing rate charged by DFAS will increase. (SHC, 2012, p. 2-1)

Some cardholders are not routinely rotating supply sources; instead showing favoritism to certain vendors. This interviewee believes that increasing the threshold will "open more doors" to this non-competitive practice. (SHC, 2012, p. 2-2)

An increase in the threshold would not be worth the effort unless the dollar thresholds associated with the Davis-Bacon and Service Contract Acts were increased in parallel. (SHC, 2012, p. 2-2)

Contract Specialists and Contracting Officers [could] focus on more complex contract issues and procurements as a result of the associated reduced workload. (SHC, 2012, p. 2-3)

[Many] believe operational effectiveness and readiness will accompany an increase in the threshold. (SHC, 2012, p. 2-4)

OMB Circular A-123: Improving the Management of Government Charge Card Programs

Although this is a Federal memorandum that covers all charge cards, it is important because the banks who issue these credit cards use this as a positive internal control of government programs. The bank associated with the Navy's purchase card program cited this document as one of the controls the government had in place to reduce the risk of fraud and misuse (OMB, 2009).

Government Charge Card Abuse Prevention Act of 2012

This Act specifies amendments for purchase card program, specifically in government-wide safeguards and internal controls (Congress, 2012). The bank associated with the Navy's purchase card program cited this document as one of the controls the government has in place to reduce the risk of fraud and misuse.

N2005-0014: Naval Supply Systems Command Commercial Purchase Card Program

This report was included because it provides amplifying information about the PPMAP team.

Relevant Information from the Report

[Naval Supply Systems Command] established the Procurement Performance Management Assessment Program process as a tool to provide additional oversight of activity purchase card programs. This process is a method of reviewing, assessing, and reporting on the purchase card program at each activity. It consists of transactional reviews, an internal management review, and a review of other specific purchase elements. (NAS, 2004, p. 1)

A Brief History and Review of Purchasing Card Use by the U.S. Government: 1990–2005

This article provided an overview of the history of the purchase card. It listed all government actions leading up to the pilot programs, as well as those that redirected policies. It discussed the initial emphasis on the purchase card, which led to various commands with 30% of the workforce authorized a credit card, reaching an all-time high in 2000–2001. During this time of excess, the oversight was not sufficient and there were many high-profile cases of fraud and abuse. These are highlighted in the GAO and OIG reports already discussed.

Relevant Information from the Report

Purchase cards have received much attention as a tool to help U.S. Federal government employees acquire small-dollar goods from suppliers in a cost-effective and timely manner. Purchases under $2,500 have been estimated by the GSA to account for a meager 2% of total federal government spending, but 85% of total procurement transaction volume. Purchase cards expedite payment to suppliers and reduce or eliminate the paperwork associated with requisitions, purchase orders, invoices and checks. (Gupta & Palmer, 2008, p. 174)

Federal government cost savings by use of purchase cards [instead of a contract] have ranged from $54 to $92 per transaction. (Gupta & Palmer, 2008, p. 175)

Purchase cards have been found to reduce the time required to process paperwork transactions by two to six weeks. (Gupta & Palmer, 2008, p. 175)

After fifteen years of use by U.S. Federal government agencies, purchase cards are still caught in a debate between the drive to improve government efficiency and the need to prudently manage and control spending of taxpayer resources. (Gupta & Palmer, 2008, p. 177)

Every type of procure-to-payment process has an inherent risk of error and abuse which the government, through technology and administrative and management activities, attempts to minimize and control. (Gupta & Palmer, 2008, p. 191)

While anecdotal evidence of card misuse is easy to find, there is no proof that significant card misuse exists in the Federal Government. The limited research that exists indicates that purchase card misuse in aggregate is

very small and below the levels of card misuse found in the private sector. (Gupta & Palmer, 2008, p. 191)

In a survey by Palmer et al., 579 purchase card using organizations reported, in aggregate that purchase card misuse represented 0.027% of purchase card spending, or $270 per $1 million spent. (Gupta & Palmer, 2008, p. 191)

The Foundations of Government Contracting

This article overviews the history of contracting, dating from the adoption of England's contracting principles. It cited multiple procurement issues from the Revolutionary War to the Civil War that can still be seen as issues today. It discussed inherent and historical instances, citing that contracting has always been rife with misuse and fraud.

Relevant Information from the Report

Government spending in this country has always been a primary–if sometimes unintended–driver of economic, industrial, social, and scientific development. (Keeney, 2007, p. 7)

The cycle of waste, fraud, and abuse on the part of both contractors and government employees has echoed down the years since the colonial days. Abuses and the ensuing public scandals produce an increasing maze of government regulation. The tangle of red tape has caused responsible contractors from colonial farmer to modern industrial suppliers to refuse to do business with the government. As one new government employee said, when first exposed to the morass of regulations, "Who in their right mind would subject themselves to this?" (Keeney, 2007, p. 7)

D.   SUMMARY OF FOLLOWING

In order to get a clear picture of the size and scope of contracts and purchase card transactions in the Navy, this project needed to sort the raw data received from Naval sources involved with procurement–the Fleet Logistics Center (FLC) and the Consolidated Card Program Management Division (CCPMD). Although this research topic deals primarily with the purchase card program, it cannot build an accurate picture of the purchase card without considering the effect of contracts. Contract data was received from FLC and purchase card data was obtained from CCMPD. A listing of purchase card authority was also received from the PPMAP team. Once the data from

both purchasing programs had been collected, it was sorted for relevant information and put it into a format suitable for discussion. In Chapter IV, the data from these two procurement sources will be analyzed and compared.

1.   FLC Contract Data

Fleet Logistics Center (FLC) is the contracting arm of the Navy. All units under their purview or region that cannot purchase items using the stock system or the purchase card will submit a contract request to FLC for procurement. FLC provided data about the number and value of all contracts from FY10-13 for analysis. Each year had approximately 35,000 line items; however, this study is focused on the contracts below $25,000, and reduced the line items to approximately 20,000 per year.

Since it is not possible to display all the information, Figures 2 and 3 summarize each year's data in two charts which compare the total dollar value of contracts let in Figure 2 to the number of contracts produced in Figure 3. Since this study focuses on contracts between $3,000 and $25,000, the figures are laid out in that manner. In Figure 2, despite the changes in funding from year to year, contracts between $3,000 and $25,000 make up only 2–3% of the contract funds spent each year, whereas Figure 3 shows those same contracts represent 43–47% of contracts written.

Total Value ($)	FY2010	FY2011	FY2012	FY2013
All Transactions	$5,548.6 M	$8,710.4 M	$8,035.6 M	$4,954.6 M
Below $25,000	$210.5 M	$172.1 M	$143.8 M	$103.8 M
Below $3,000	$16.5 M	$11.8 M	$9.5 M	$7.5 M
$3,000-$25,000	$194.0 M	$160.2 M	$134.3 M	$96.2 M
Over $25,000	$5,338.1 M	$8,538.3 M	$7,891.80 M	$4,850.8 M
% Below $3,000	1%	0%	0%	0%
% Below $25,000	4%	2%	2%	2%
% $3K-$25K	3%	2%	2%	2%

Figure 2.   FLC Contracts Let by Dollar Amount (after FLC, 2013)

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Transactions (#)	FY2010	FY2011	FY2012	FY2013
All Transactions	44,004	34,872	28,982	22,243
Below $25,000	34,620	26,245	21,648	16,243
Below $3,000	14,788	10,174	8,016	6,575
$3,000-$25,000	19,832	16,071	13,632	9,668
Over $25,000	9,384	8,627	7,334	6,000
% Below $3,000	34%	29%	28%	30%
% Below $25,000	79%	75%	75%	73%
% $3K-$25K	45%	46%	47%	43%

Figure 3.   FLC Contracts Let by Volume (after FLC, 2013)

It is significant to notice that Figures 2 and 3 also show that contracts below $3,000 take up 30% of resources and only encompass 0–1% of the funds spent. These contracts are included in the chart because there are certain circumstances when purchases under the $3,000 purchase card limit must still go to contracting. First, if there is a service or requirement that needs "terms and conditions," it must be completed by contract. Second, due to the responsibility and risk associated, all airplane parts and non-common use hazardous material (HAZMAT) must be contracted. Without a contract, there is no control or recourse if the wrong part is ordered, delivered, is defective, does not function as required, or causes a mishap. These are some of the protections that are not available when using a purchase card.

This data, along with the data from the next section, will be compared and analyzed in Chapter IV.

2.   CCMPD Purchase Card Data

The Consolidated Card Program Management Division (CCPMD) is the program and policy arm of all card programs in the Navy. According to the CCPMD website, they "provide centralized operational control and management of Department of the Navy (DON) financial card programs and selected electronic transaction systems" (NAVSUP,

2014). CCPMD is the main source of training, information, and guidance for all cardholders, AOs, and Agency Program Coordinators (APC) in the Navy.

CCPMD provided data about the number and value of all Navy purchase card transactions from FY10-13. The data sets in Figures 4 and 5 are comparable to the contracting data collected in Figures 2 and 3.

Figure 4 shows the value of all purchase card transactions in each year, while Figure 5 shows the number of transactions made.

Total Value ($)	FY2010	FY2011	FY2012	FY2013
All Transactions	$1,533.2 M	$1,488.9 M	$1,393.8 M	$1,143.6 M
Below $25,000	$1,359.0 M	$1,305.2 M	$1,228.3 M	$1,014.6 M
Below $3,000	$1,009.3 M	$971.1 M	$928.7 M	$784.2 M
$3,000-$25,000	$349.8 M	$334.2 M	$299.6 M	$230.4 M
Over $25,000	$174.2 M	$183.7 M	$165.5 M	$129.0 M
% Below $3,000	66%	65%	67%	69%

Figure 4.   Navy Purchase Card Purchases ($) (after CCPMD, 2014)

Figure 4 shows that almost one-third of purchase card spending is for transactions over the $3,000 purchase limit. These are made of up two types of transactions: method of payment (MOP) purchases where a contract is paid using the unit purchase card rather than DFAS; or, if a cardholder has the authority to purchase up to $25,000 for training requirements or to purchase up to $150,000 against special existing contracts, like blanket purchase agreements (BPA) or indefinite delivery/indefinite quantity (ID/IQ) contracts for repetitive orders. This authority is discussed further in the next section.

Transactions (#)	FY2010	FY2011	FY2012	FY2013
All Transactions	1,642,991	1,523,444	1,424,412	1,178,257
Below $25,000	1,639,434	1,519,865	1,421,221	1,175,748
Below $3,000	1,597,004	1,479,272	1,384,742	1,147,571
$3,000-$25,000	42,430	40,593	36,479	28,177
Over $25,000	3,557	3,579	3,191	2,509
% Below $3,000	97%	97%	97%	97%

Figure 5.   Navy Purchase Card Transactions (#) (after CCPMD, 2014)

Figure 5 shows that transactions below $3,000 make up 97% of the purchases in the program. Although a third of the funds associated with the purchase card are for items over $3,000 there are not a significant number of these transactions.

According to CCPMD, although it changes almost daily, there are currently 9,762 cardholders in the Navy making the 1.17 million purchase card transactions worth $1.14 billion in Figures 4 and 5. Compare that to a GAO investigation in 2001, where the Navy holds the second largest DOD purchase card program with 28,000 cardholders making 2.8 million transactions worth $1.8 billion (GAO, 2002).

This data, along with the contracting data in the previous section will be analyzed and compared in Chapter IV.

3.   PPMAP Authority Data

The Procurement Performance Management Assessment Program (PPMAP) process was established by NAVSUP:

> as a tool to provide additional oversight of activity purchase card programs. This process is a method of reviewing, assessing, and reporting on the purchase card program at each activity. It consists of transactional reviews, an internal management review, and a review of other specific purchase elements. (NAS, 2004, p. 1)

The PPMAP team visits each command under their purview every 18 months in order to audit their purchase card program. This particular team interviewed oversees 187 shore-based commands.

a. Types of Purchase Card Authority

The various types of purchase card programs available depend on the level of training and purchasing power granted to the program. A purchase card program can be given the ability to order beyond the $3,000 threshold, if the cardholder has completed the required training. This training, called CON 237 in the Defense Acquisition University (DAU) curriculum, can result in a 1402 contract authority given to the cardholder. Although highly recommended, it is not required for the AO and APC to complete the training, as long as the cardholder holds the certification.

(1)   Most commands have the normal authority to purchase up to $3,000.

(2)   Some commands have established "ordering 1" authority where they can purchase up to $150,000 in supplies from established mandatory sources and BPAs, for example.

(3)   Fewer commands have "ordering 2" authority where they can purchase up to $150,000 in supplies and services from mandatory sources, like ID/IQs and BPAs.

Figure 6 summarizes the purchase card authorities granted to shore commands under the auditing purview of one regional PPMAP team. There are several other teams assigned to audit other shore commands around the world, and there are several Afloat Training Groups that focus on auditing sea-based commands.

	Purchase Card (PC)	PC + Ordering 1	PC + Ordering 2
187 Commands	127	35	25
	68%	19%	13%

Figure 6.   Types of Purchase Card Authority (after PPMAP, 2014)

Normal business data was collected from entities that represent two of the three procurement options for an operational unit. Stock system purchases are not considered

for this study. The data shows a summary of all FLC contracts written and all Navy purchase card purchases for FY10–13. This information will be compared and analyzed further in Chapter IV.

Although this is helpful data, further research was necessary to (1) discover how frequently contact requirements are initiated by operational units (ships) and (2) how long the contracting process takes before it can be determined if an increase in the purchase card limit is needed to better support operational readiness.

In Chapter III, data will be presented that was not immediately available, meaning it was sought out through end users and subject matter experts (SME) mostly via interviews. Information gathered from these interviews was consolidated and presented in an image or chart format when possible.

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III. DATA PRESENTATION

The previous chapters discussed the possibility of increasing the purchase card limits, looked at this history of the program, and provided data on how many contract and purchase card purchases occurred over the last four years in the Navy. While this is important information, it only provides one piece of the purchasing picture. In this chapter, the operational end users of these purchasing methods will be examined, the process required for contracts will be explained, and a review of auditing and misuse in the Navy will be presented. In addition, purchase card programs in industry will be compared and information gathered from a commercial bank will explain how purchase card programs are administered, both in government and private sectors.

The remaining data for this project was not immediately available and was collected by asking subject matter experts (SME) for information in the form of interviews, walk-throughs, and data requests.

Once this data was obtained, stakeholders at all levels of the purchase card program were contacted and presented the data to voice their feedback and recommendations. This critical information was incorporated into the data collection and considered when making final recommendations.

1. Supply Officer Data

Supply Officers are the "businessmen" of the Navy. Stationed at nearly every command, they are generally in charge of purchasing everything that is required for the mission. The previous chapter showed the data for all contract and purchase card transactions in the Navy. To consider the effects at a single unit, this study needed to learn how large a typical purchase card program in the Navy is, and how frequently a unit requires a contract. Operational Supply Officers were contacted to request data about the purchase card program and the extent of contract requests from FY10-13. This particular sub-set of Supply Officers was chosen because there is a consistent method of contact for those assigned to a ship.

a. *Purchase Card Data*

In order to find out how large a typical operational purchase card program was, this study contacted 78 operational Supply Officers requesting data about purchase card transactions.

These were the purchase card questions:

(1)   Are you Agency Program Coordinator (APC) in your program?

(2)   How many Approving Officials (AO) are in your program?

(3)   How many cardholders are in your program?

(4)   On average, how many (#) purchase card purchases are made in a month?

(5)   On average, how much ($) is spent on your purchase card each month?

(6)   What recorded cases of misuse have occurred in your current program?

(7)   What recorded cases of misuse have occurred at past commands?

(8)   Does this program have stricter controls than required by instruction?

(9)   Do you have any cardholders who are not in your chain of command?

(10)   What items are the most difficult to procure with current purchasing rules?

Of the 78 Supply Officers contacted, 21 (27%) provided data for the purchase card questions. The responses are summarized in Figure 7, which shows that most ships maintain small purchase card operations, just large enough to maintain redundancy in order to cover leave and emergency issues. With some math, the data also shows that the average purchase card transaction is almost $1,300.

Figure 7 also indicates a great variance in the use of the purchase card. All the ships that responded are at least the size of a destroyer, with a few each of cruisers, carriers, and amphibious ships. While small, this sample is indicative of any collection of ships at any time. Variances in data follow the various stages of deployment preparations and purchases always increase when preparing for the Board of Inspection and Survey (INSURV).

	# AOs	# CHs	Average Monthly Transactions	Average Monthly Statement
Ship 1	2	2	20	$20,000
Ship 2	2	2	10	$8,000
Ship 3	2	2	18	$17,800
Ship 4	1	3	73	$103,459
Ship 5	1	4	86	$157,839
Ship 6	3	4	46	$76,000
Ship 7	2	6	25	$32,900
Ship 8	1	2	100	$150,000
Ship 9	1	2	5	$10,000
Ship 10	1	2	31	$38,300
Ship 11	2	2	6	$5,000
Ship 12	1	3	6	$8,000
Ship 13	1	2	12	$9,800
Ship 14	1	2	12	$4,000
Ship 15	2	2	15	$15,000
Ship 16	1	2	75	$50,000
Ship 17	1	3	35	$45,000
Ship 18	1	2	18	$27,244
Ship 19	1	2	14	$27,000
Ship 20	2	5	54	$51,537
Ship 21	5	2	7	$20,000

Figure 7.   Purchase Card Data by Ship

Of the 21 responders, only five commands reported internal control actions in excess of what is required by the NAVSUPINST 4200.99B. The increased controls implemented include:

Department Heads must approve departmental purchase card requests
Department Head meetings are used to prioritize purchase card requests
Voluntary additional Program Audit Tool (PAT) screenings
Purchase card requests over $1,500 are signed by the Commanding Officer
Extra screening is done to ensure rotation of vendors and prevent misuse

No Supply Officer reported misuse at the current command or in a previous command. Four commands reported a questionable incident that was either reversed without issue or had experienced an actual third-party fraud where the command was not held liable for the charges.

Supply Officers retain the position of APC in 18 of 21 commands. The remaining three are in very large operations that push the authority down to a more junior Supply Officer whose day-to-day activities put them in a better position to monitor the card activity. None of the Supply Officers have authorized purchase cards to be issued outside of the financial division of the ship.

Supply Officers were asked what items caused the most difficulties based on current purchasing methods; for example, items that are not in the stock system, those that exceed the purchase card limit, and items that are required sooner than the stock system can provide. This author expected to receive reports of engineering coveralls, as these are consistently backordered in the stock system. What surprised the author (who generally concurred) was that there were so many other valid items to consider: radios, equipment hoses (organic sources cannot certify them fast enough, so commercial sources are needed), ADP (computer) equipment (the Information Technology Procurement Review (ITPR) is very time consuming), food service uniforms (even small orders quickly exceed purchase card limits), habitability items (rack curtains and parts can quickly exceed the limits), CO_2 bottles, photo equipment, medical and dental supplies, dragger tubes for damage control (stock system orders arrive expired), any non-standard part over the purchase card threshold, obsolete parts, boat parts, SPY parts, cherry-pickers, special suits for Hot Suit Men, urgent services for defueling, oily waste offloads, and hydro testing on SCBAs (breathing devices for divers).

Although it was not information we requested, many Supply Officers expressed a desire to increase the purchase card limit, mostly to assist in short fuse requirements and/or purchasing the items in the previous paragraph. Some felt a slight increase ($3,500-$4,500) would be appropriate, while others thought $10,000 would better support the majority of the needs.

Some Supply Officers were skeptical that raising the purchase card limit would actually solve anything. They suspect that vendors frequently adjust their prices to meet purchase card limits, and predicted vendors would just adjust prices upward to match the new limit.

b.   *Contract Data*

A total of 78 Supply Officers were contacted to provide information about the contracts they have sent to Fleet Logistics Center (FLC) in the last four years. These were the contract questions:

(11)   What contracts below $25,000 were sent to FLC? (No port costs)

(12)   Were any contract requests below $3,000?

(13)   Were any contract requests Sole Source?

(14)   Were any Urgent?

Unfortunately, this is data that ships do not track in a format that is conducive to data collections. Of those contacted, 16 (21%) ships were able to locate or create enough suitable data to cover two years. Although not as much data was available as hoped, it provided enough information to get a general idea of operational contract use. Figure 8 shows the number of contracts each ship sent to FLC during 2012 and 2013, and gives the sum of those contracts. The Average column shows how many contracts each ship would do in a given year, and the average cost of each of those contracts.

Again, the ship's mission and where they fall in the deployment cycles can greatly affect the ship's budget and number of contracts required.

	FY12		FY13		Average	
	#	$	#	$	#	$
Ship 1	7	$126,833	13	$432,167	10	$ 27,950
Ship 2	6	$ 55,604	23	$212,478	15	$ 9,244
Ship 3	2	$ 13,000	0	$ -	1	$ 6,500
Ship 4	4	$ 82,691	1	$ 14,827	3	$ 19,504
Ship 5	2	$ 15,510	4	$ 25,406	3	$ 6,819
Ship 6	0	$ -	2	$ 31,326	1	$ 15,663
Ship 7	1	$ 13,000	2	$ 14,373	2	$ 9,124
Ship 8	1	$ 17,000	1	$ 21,000	1	$ 19,000
Ship 9	0	$ -	1	$ 15,000	1	$ 15,000
Ship 10	3	$ 37,631	7	$ 62,592	5	$ 10,022
Ship 11	1	$ 5,500	1	$ 11,766	1	$ 8,633
Ship 12	0	$ -	2	$ 21,009	1	$ 10,505
Ship 13	1	$ 4,000	0	$ -	1	$ 4,000
Ship 14	2	$ 27,300	0	$ -	1	$ 13,650
Ship 15	0	$ -	3	$ 42,281	2	$ 14,094
Ship 16	0	$ -	1	$ 6,000	1	$ 6,000

Figure 8.   Contracts Submitted to FLC by Ships

What this chart really shows that is that ships do not utilize FLC very often; and when they do, the contract has an average value of $14,400. There are several reasons that might keep a ship from requiring a contract. First, most repair parts (and many other items) for ships are available within the stock system. Second, most day to day requirements at smaller commands are of a low dollar value and fall within the purchase card rules. Third, an operational command is generally extremely busy and under constant pressure to take care of issues immediately. The paperwork and time requirements involved with initiating a contract are viewed as insurmountable by most divisions on the ship. Every possible option available will be considered and attempted prior to undertaking a contract request, to include begging, borrowing, and cannibalization, which is stealing with permission.

No ship initiated a contract for items below $3,000. This question was asked because there are a significant number of contract requests going to FLC that are below $3,000 and this study wanted to determine what types of requirements those might be.

Most port costs are not below $3,000, but those that are usually must be contracted because they are almost always a service that requires "terms & conditions."

When looking at ship data it is important to consider that when a ship submits contract requests to FLC, many will require special attention because there are few manufacturers or there is a time crunch. Both of these situations require FLC to drop other contracts in progress and apply resources to those more recent, but urgent requests.

Generally, a contract request sent to FLC requires quotes from three separate vendors be included in the package. If a ship cannot locate three vendors that can provide the needed item, a Sole Source justification memorandum must be submitted as part of the package.

A contract generally takes about 40 days to process before a ship will receive the contracted item. Occasionally, a ship will have an urgent requirement that is needed more quickly than a standard contract timeline. An Urgency Impact statement needs to be created to justify why FLC should shift focus to this more important request. The Urgency Impact statement must be submitted as part of the request package.

Looking at two years of contract data, Figure 9 shows how many total contracts each ship sent to FLC and of those, how many contract requests were sent as Sole Source and how many were Urgent. Finally, there were a significant number of requests that were both a Sole Source and Urgent requirement.

Figure 9 shows that Ship 2, for example, submitted 29 contracts in the last 2 years. Seven of 29 requests were Sole Source and seven of 29 requests were Urgent. However five of those 29 requirements represent requirements that were actually both Sole Source and Urgent.

	Total	Sole Source	Urgent	Both
Ship 1	20	4	0	0
Ship 2	29	7	7	5
Ship 3	2	1	1	1
Ship 4	5	5	1	1
Ship 5	6	4	3	3
Ship 6	2	0	0	0
Ship 7	3	2	2	2
Ship 8	2	2	0	0
Ship 9	1	0	0	0
Ship 10	10	0	2	0
Ship 11	2	1	1	0
Ship 12	2	1	0	0
Ship 13	1	0	1	0
Ship 14	2	0	0	0
Ship 15	3	3	2	2
Ship 16	1	0	0	0
Total	91	30	20	14
		33%	22%	15%

Figure 9.   Ship Contract Requests Sent to FLC

The last line of Figure 9 shows that of all the ship contracts submitted to FLC, 33% only have one source available and 22% require a faster than normal response. Separately, 15% of all contracts submitted by ships are time-sensitive requirements with only one known source. These are the perfect scenarios where an increase in the purchase card limit could alleviate unnecessary, high-pressure work at FLC.

When comparing the typical transactions taking place on a ship, it is clear that purchase cards make up a bulk of the transactions outside the stock system. Figure 10 shows how many contract and purchase card transactions an average ship conducts in a year and the proportion of business allocated to each procurement method.

	Average/Year	Average/Year	% of Transactions	% of Spending
Contracts	3	$40,828	1%	7%
Purchase Cards	387	$512,500	99%	93%

Figure 10.   Average Transactions per Year for an Average Ship[2]

Something to consider is how the various procurement processes differ at the operational level. There are three basic procurement methods available to a ship: the stock system, the purchase card, and sending a contract request to FLC. Figure 11 shows how a sailor with a requirement would travel through the four (or so) levels of authority at a typical command in order to get a needed item, depending on the type of procurement needed.
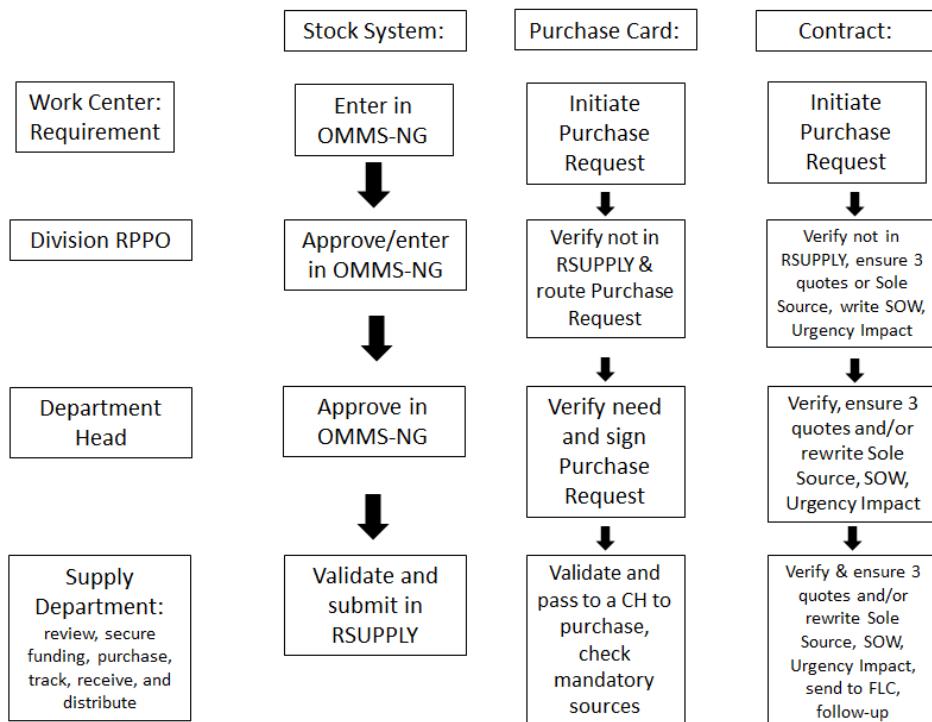
Figure 11.   Unit Level Purchase Request Process

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[2] The purchase card numbers are based on an average purchase load per month (Figure 7) and multiplied by 12. Although unlikely, it is possible that some average monthly purchase card numbers included a Method of Payment (MOP) purchase, which is a contract that is paid using the credit card.

Visually, the stock system is the easiest procurement method for the end user. Work Centers are already entering maintenance information in the Operational Maintenance Management System–Next Generation (OMMS–NG). OMMS–NG tracks preventative and corrective maintenance actions for most ship systems and interfaces with Relational Supply (RSUPPLY), the system used to order parts. A purchase card request requires more documentation and the process is not automated, but it is still fairly easy for the end user once they do it a couple times. A contract request requires more paperwork and more reviews at each level of the process; and because contracts are done so infrequently at all levels, a request will likely be returned numerous times in the process for questions and missing or incomplete documentation.

Figure 12 takes the information from Figure 11 and breaks it into a timeline of the purchase card and contract process, in hours. There are three speeds at which a request can travel through the process: "as fast as," would indicate that everything was completed quickly and correctly the first time. The quotes were easy to find, supervisors were easy to locate, information was quickly provided, the funds were available, and no ship evolutions prevented the cardholder from making the purchase immediately. The "typical" path would indicate that information and people were not as easy to find and ship evolutions prevented a fast resolution. If the process is "as slow as," it means that things were more difficult, the internet went down, people were on watch or off ship, funding was not available, and there was a fire drill in Supply Support.

Purchase Card

	Initiate Req	Quote(s)	Sole Source	Urgency	DH Sign	Review	Info Needed	Review	Give to CH	Make Purch	HOURS	DAYS
As fast as	0.25	0.25	0	0	0.25	0.25	0.25	0.25	0.25	0.25	2	0
Typical	0.5	0.5	0	0	3	3	3	3	5	3	21	1
As slow as	3	3	0	0	20	20	48	20	20	5	139	6

Contract

	Initiate Req	Quote(s)	Sole Source	Urgency	DH Sign	Review	Info Needed	Review	Send to FLC	Follow Up	HOURS	DAYS
As fast as	0.25	0.5	2	2	0.25	0.5	0.5	0.5	0.25	0.25	7	0
Typical	0.5	5	24	24	3	5	8	5	5	3	83	3
As slow as	3	48	48	48	20	20	48	30	20	5	290	12

Figure 12.   Process Time (in Hours) for a Unit Request

Figure 12 shows that a typical contract package can take three days (or as many as 12) to compile before it is sent to FLC. The FLC process is addressed in the next section.

2.   Fleet Logistics Center Interview

Several articles and Government Accountability Office (GAO) reports (see Chapter II Literature Review) have stated that completing purchases by purchase card is more economical and efficient than doing so by contract. This is logical because by using the credit card, you can keep transactions "in house." A contract has to be sent to another entity to manage, thereby requiring at least two sets of people to touch it. Also, a contract is more complex, has more steps, requires more research, and takes more time to process than a purchase card request.

If pulling work away from the contracting command is being considered, a better understanding of the contracting process from start to finish would be required. Figure 13 illustrates the process a contract request would go through. Each box represents a different person and/or functional area within the process, most being accomplished within FLC. The only exception is the Comptroller, who is located at the type commander (TYCOM).
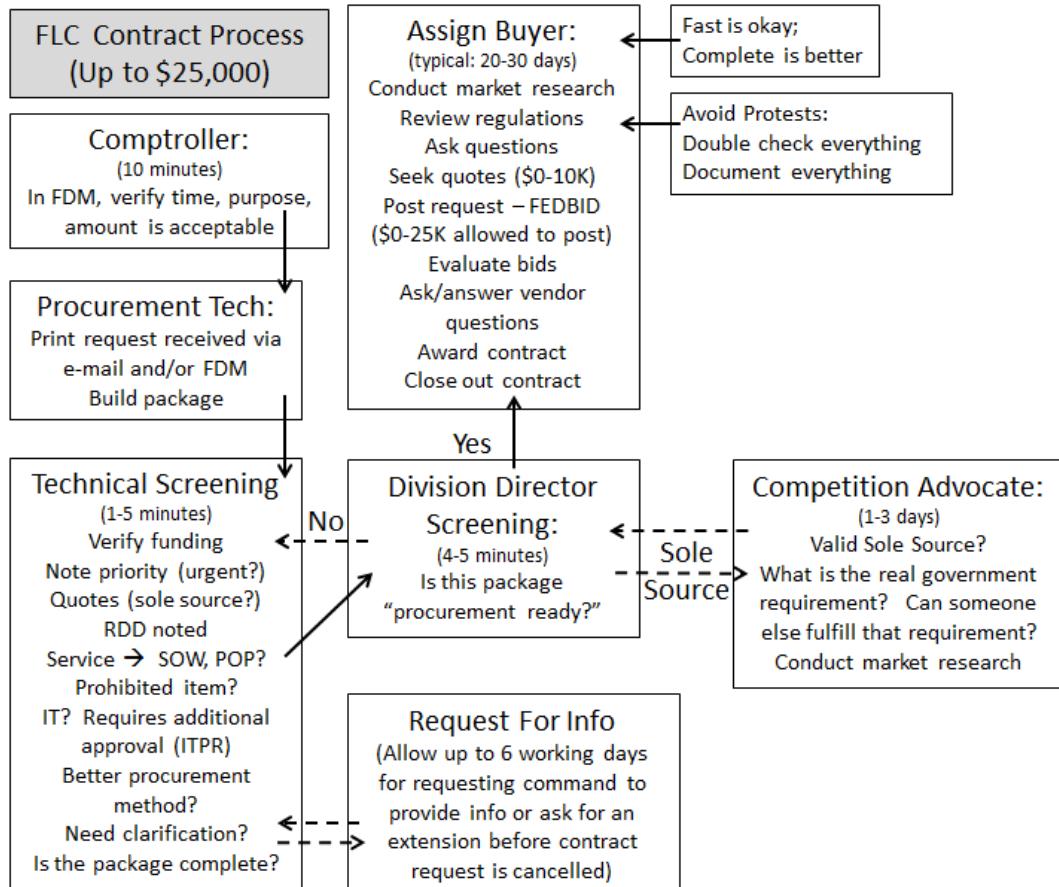
Figure 13. FLC Contract Process (after FLC, 2014)

In Figure 13, the solid arrows indicate the primary path of progress. The dashed arrows represent possible extra steps that may be required, depending on how complete the contract request when received by the FLC.

The FLC contract process begins when a unit uploads the contract request package through a data portal called the Funding Document Manager (FDM) and the Comptroller enters FDM to view the contract. Once approved for appropriate purpose, time, and amount by the Comptroller, the contract will become visible to the Procurement Technician in FDM. The Tech will print the document(s) and assemble a complete package for review by the Technical Screener. The Technical Screener will verify that all pieces of the contract request have been received and will contact the unit directly if anything is missing or needs clarification. Once complete, the package will be forwarded to another screener, the Division Director (or Lead) for Afloat/Operational requests,

Shore-based requests or Regional Maintenance Center requests, as appropriate. The Division Director will screen the requests again, this time focusing on the completeness and sufficiency of the information. Once the Division Director has determined the request is "procurement ready," it will get assigned to a Buyer. Once the Buyer has received the contract request, they have 30 days to secure the contract.

Figure 14 was produced by setting the information in Figure 13 to a timeline. This timeline is very similar to the ship process timeline; however this only addresses the portion of the contract process after the unit uploaded the request in FDM. Similarly, if the process goes "as fast as," every person is sitting at their desk actively waiting for the arrival of a new contract request, each step is completed immediately, and it is quickly sent to the next person. The "typical" process has people that only check the system a couple of times a day, have a meeting or two to attend, are assisting someone, and are working on another request. If the contract request takes "as much as," it may have arrived after working hours, needed more information, competition research was difficult, other contracts were more important, and/or it was a complicated contract that required more examination by the Buyer.

hours	Comptroller	Tech	Review	RFI	Review	Sole Source	Assign Buyer	Delivery	HOURS	DAYS
As fast as	0.25	0.25	0.25	0	0.25	0	480	48	529	22
Typical	5	5	3	48	3	36	600	336	1036	43
As much as	20	20	5	144	5	72	720	720	1706	71

If urgent, Buyers can finish in 2-200 hours.

Figure 14.   Linear FLC Contract Timeline (in Hours) (after FLC, 2014)

It is important to note that if a contract request has an Urgency Impact statement, the Buyer can rush it through the system; but the process will go much faster if it is a commercial, off-the-shelf (COTS) item or a readily available service.

3. PPMAP Auditing Interview

Charged with providing oversight to shore-based Navy commands, the Procurement Performance Management Assessment Program (PPMAP) team has an overall view of the issues surrounding the purchase card program. Their purpose is to visit each command under their purview every 18 months to ensure they are following the rules and regulations of the purchase card program and that the internal controls are being used as directed. This interview was included because the prevalence of misuse was discussed, along with other consistent issues within the purchase card program across the Navy. This particular team oversees 187 shore-based commands.

Misuse of the Purchase Card

Misuse has always been a risk when handling public funds. Misuse is divided into three general categories: purchasing something that is allowed but should be purchased thru other means (like a mandatory source), purchasing something in excess of what is needed (like stocking up on items that go obsolete quickly), and purchasing something for personal gain.

Misuse with the government purchase card for personal gain was brought to light in the early 2000s when some high profile and alarming examples of misuse caused the government to tighten the internal controls and increase the support to those charged with auditing the purchase card. By 2002, the regulations, training, and auditing resources were starting to increase and improve dramatically. The new instructions not only gave more guidance to the cardholder, but also delineated how the PPMAP personnel were to oversee and audit the program.

Currently, there are no misuse concerns with the 187 commands they oversee. 99% of cardholders, AOs, and APCs just want to do their jobs and do them well. The most difficult thing with auditing a card program is that constant personnel turnover can hurt a purchase card program. When there are so many turnovers, the learning curve is constantly steep as knowledge is lost again and again, continuity suffers as no one can recall transactions from the past, and records tend to be retained in haphazard manners. Additionally, when the cardholder, AO, or APC is military, they rarely spend more than

50% of their time focused on purchase card issues. When the position is filled by a civilian, it is more likely to be their full-time job. Civilian workers also increase the likelihood of maintaining a corporate knowledge about history and procedures, as there is less turnover with those positions.

4. Afloat Training Group Interview

The ATG purchase card inspectors are Logistics Specialist Master Chiefs, who have been in the Navy, using these programs for more than 20 years. After interviewing the shore purchase card auditors, it was important to interview the inspectors of the at sea programs.

According to the website, an Afloat Training Group "provides dynamic, quality afloat training to Navy and Coast Guard Sailors to ensure a combat ready force capable of performing a broad spectrum of maritime missions" (ATG, 2014). In addition to training, they also audit and inspect most programs on the ship.

The ATG inspectors interviewed believed that electronic audits (like PAT) are not sufficient enough to maintain the level of integrity and oversight necessary to keep purchase cardholders honest. The consistent arrival of auditors is needed to provide an unbiased inspection of the process. This is also a valuable learning and training tool that is not available with electronic systems.

As a general rule, the purchase card programs at sea suffer from a lack of training, a lack of involvement by the APC, and reluctance by upper level APCs to suspend accounts for violations. Although misuse for personal gain is not prevalent in these programs, accountability issues do exist and cardholders are not consistently being reprimanded. APCs should be more proactive, more involved in the oversight process, and should be administering appropriate corrective and disciplinary actions.

5. Industry Purchase Card Program Interviews

After interviewing and analyzing the government purchase card data, the next step was studying how for-profit entities used and managed their purchase card program. Executives were interviewed from four companies that have a similar make up to the

military or U.S. Navy–they do not produce anything substantial and they are capital and labor intensive. Represented are a major airline, a college campus, a trucking company, and an engineering company. The intent was to get an overall picture of industry purchase card programs to compare the risks and the costs with the government system.

Regional and national companies were contacted for interviews because their corporate financial offices were less difficult to reach using consumer contact information. A personal contact for the engineering company was obtained for an interview, which was by far the largest company contacted and most likely provided the best comparison to the Navy program.

These are the questions asked during the interviews:

(1)   How many cardholders are in your program? Are they within purchasing?

(2)   What training is required to become a cardholder? Is credit considered?

(3)   How does cardholder supervision/oversight work?

(4)   What controls are in place? What are they allowed to purchase?

(5)   How frequently are there occasions of misuse?

Figure 15 is a chart is a summary that compares the interviewed company practices for span of control, what can be purchased, individual purchase limits, internal controls, and frequency of misuse. The assumption was that for-profit companies might choose to have different controls on their program than the government to even out the balance between risk and keeping the program economical.

	Airline	Trucking Company	College Campus	Engineering Company
Cardholders	500	15	100	1000 (60 for govt. work)
AO:CH	1:500	1:15	1:5	1:10
Primary Use	Company travel, office supplies and customer service needs	Emergencies (a special contract for office supplies exists)	Office supplies	Supplies and simple services
Transaction Limit	$1000, varies	$1000, varies	$1000, varies	$2,500 ($3,000 govt.)
Monthly Limit	$5000, varies	$5000, varies	$5000, varies	$25,000
Primary Internal Controls	MCC restrictions, restricted items need prior approval	Very selective CHs. Relationship-based.	MCC restrictions, extensive training	Annual exam, computer monitoring program, MCC restrictions
Issue Outside Purchasing	Yes	No	Yes	No, assigned to each project
Misuse	0-2/year	None. Many issues 10 years ago. Tightened controls.	Less than 1 instance per year. Usually a mistake.	Mostly accidents or one-time learning mistakes

Figure 15.   Comparison of Industry Purchase Card Programs

The for-profit companies have loose controls on purchases. While most cardholders tended to have lower purchasing limits, they had no pre-approval process on purchases, with the exception of a few designated items. All transactions were reviewed after the fact using the monthly bank statement. Most of the companies had strict policies for providing receipts to match statements; however, many receipts are not detailed enough to identify exactly what was purchased. The for-profit companies have no mechanism to determine what was purchased once memories have faded or people

transferred. Each company did have a few specific items that required approval in advance.

The next four sections describe each company program in detail.

a.   *Major Airline Interview*

The director of the purchase card program at a major airline was interviewed. This company has nearly 500 cardholders scattered throughout 90 airports in North America. An additional 17 cardholders are located within the divisions of the corporate office. The purchase card is used for normal business expenses: company travel, supplies, and things like rebooking cancelled customer flights.

There is one credit card administrator who is in charge of overseeing, issuing, reviewing, and auditing the credit card program. The administrator will set the card parameters for each cardholder upon issue and adjust as needed. As a rule, a cardholder is limited to $1,000 per transaction and $2,500–$5,000 per month. Merchant category codes (MCC) are utilized to prevent purchases at establishments that are not considered normal places of business for an airline. This is a corporate liability purchase card program, which means that the company is backing the purchase card activity, not the cardholder; so they do not conduct individual credit checks before issuing someone a card.

Purchases are approved by the supervisor at the end of the billing cycle. After the purchases have been made and the statement and receipts are received, the supervisor will review all transactions and ask for additional documentation, as needed.

There are zero to two intentional misuse incidents each year. Other misuse issues are accidental and due to confusing travel reimbursement rules. There are infrequent instances where a small dollar item will end up on a receipt, like a pack of gum or a candy bar. These are considered a grey area and not worth the time and expense of added controls.

b. College Campus Interview

The financial director at a local community college was interviewed. There are 100 cardholders scattered among the 60 departments of the campus. The purchase card is used mostly for office supplies.

The credit card oversight is set up with an overall administrator who oversees the program from the procurement department. Via computer program, they have the ability to change credit and purchase limits, suspend a card, and block MCCs. They do not allow split purchases that circumvent the purchase limit. A typical cardholder will have $1,000 per transaction and $5,000 per month limits. However, it can be higher or lower depending on need. This is a corporate liability program, so credit checks are not conducted prior to card issuance.

At least one person in each department has fiscal authority, depending on the size of the department. This person may oversee up to six purchase cardholders within their department. Monthly statements are retrieved using a software program. Timely reconciliation is expected and receipts are to be presented to the departmental fiscal representative with the monthly statement. Once the package is passed to the procurement department, it will be reviewed for inappropriate purchases. For example, they will check to see if it should have been purchased through a purchase order or service contract, instead of with a purchase card.

This college has well-published rules and guidelines and each cardholder affirms that they have read and understood them. A new cardholder also signs a conflict of interest form, attends a credit card orientation, and completes ethics and conflict of interest training before being issued a purchase card.

The college has few incidents of misuse, less than one incident per year. Most of these incidents are accidents that are quickly noticed and easily reversed.

c. Trucking Company Interview

The purchase card manager at a trucking company was interviewed. There are 15 purchase cardholders in this company, located at various terminals throughout the

country. They remain within the purchasing department at each terminal, and are overseen by the corporate office.

The purchase card is primarily used for emergency purposes, as they have a special contract for office supplies. They generally only have 4–5 purchases per month for a total of less than $5,000. They have tight controls on the use of their purchase card, based mostly on the trust built through many years of service with the company.

They do not allow capital equipment to be purchased with the purchase card.

They had purchase card issues many years ago where cardholders were making purchases but not providing receipts to match the charges. Since then, the new controls in place have eliminated that behavior.

d.   *Engineering Company Interview*

A senior procurement manager at an engineering company that does business with the government was interviewed. There are 1000 cardholders in the program, including 60 that only make purchases on government projects. This company has the two separate purchase card programs because the government purchase card has less restrictive rules than the company program and it is easier for invoicing if the purchases for one project are all on the same purchase card.

In order to become a cardholder, an employee needs to read the policy and score 100% on an online course about the policy. Every employee in the company has to take annual ethics training. Cardholders need to take an annual recertification test, half of which is made up of current issues in the purchase card program.

Cardholders are scattered among the company's many projects and divisions. Up to 10 cardholders (depending on project or division size) are supervised by a Cardholder Manager, who reviews the monthly billing statements and matches receipts before forwarding the entire package to the Purchase Card Program Manager. The Program Manager uses an online software program in conjunction with the bank to build queries, look at statistics, and monitor spending patterns of all cardholders within the company.

In addition to the computer program, other controls in place are $2,500 transaction limits ($3,000 for government projects) and $25,000 monthly limit. These limits are reviewed quarterly and can be temporarily or permanently increased, depending on the project needs. Cardholders are not allowed to contact the bank, unless their card has been stolen or used without permission. MCCs are used to prevent use at incompatible businesses. Any purchase in excess of $2,500 must be accompanied by a Purchase Requisition document that has been approved by an appropriate supervisor.

The engineering company typically has two types of misuse: accidental and audit exceptions. Accidental are honest mistakes that are caught, reported, and fixed before the billing cycle (personal cell phone calls mixed with business charges, for example). Audit exceptions are things like not getting approval for items over $2,500, not retaining a receipt, or charging something that belongs on the Travel & Entertainment Card. Assuming it is a minor infraction; an audit exception is treated as a learning experience on the first incident, but still documented. A person with more than two audit exceptions does not stay a cardholder for very long.

6. Commercial Card Bank Interview

For every commercial purchase card program in existence, there is a bank running it behind the scenes. Since there are a wide variance of controls between the government and industry, more information was needed to find out what kinds of controls are required by the banks, which are implemented by the client, and how the programs and rates of misuse vary between government and industry.

Within the Department of Defense (DOD), there are two banks associated with the SmartPay2 contract (Interview with DPAP, 2014) to choose from when initiating a purchase card program. An executive at one of these banks was interviewed for this report.

a. Internal Controls

When setting up a purchase card program with the bank, whether a government or commercial client, a strong emphasis must be placed on the development of internal

controls. Although the client is taking on the "central liability" for the program, the bank wants to ensure that the credit card program is proactive at preventing unwanted behavior because the bank assumes a great deal of the risk associated with a purchase card program.

The bank will work with each new client to build business processes and recommended controls to determine who can receive a purchase card, the span of control implemented, credit and usage limits, and the blocking or allowance of certain types of merchants to best fit the client needs. The bank will continually assess each client by conducting "due diligence" about the client's business and ability to pay the purchase card bill. This due diligence includes understanding the internal control process, procurement and contracting policies, governing risk policies, and credit rating. Some items specific to government include legislation like the Office of Management and Budget (OMB) Circular 123 and the Government Charge Card Abuse Prevention Act of 2012, which this interviewee cited as setting controls for the government program.

b. *Fraud and Abuse*

Fraud is something that happens when an external third party obtains access to purchase card information and makes purchases that were not authorized. Although this is a liability covered and investigated by the bank, client cardholders are expected to sign an affidavit stating they were not party to the fraud. The card companies will manage these affidavits in the future to ensure repeat offenses do not go unnoticed.

Misuse happens when a cardholder intentionally or mistakenly purchases something the purchase card was not intended to purchase. This can be something that is not authorized by rules or regulations, something beyond the scope of the mission or need, or something intentionally purchased for personal gain.

Both of these issues can be prevented with internal controls, but it is not possible to prevent everything. A strong review and audit system must also be in place to identify questionable transactions after the fact. Bank software programs, like the Program Audit Tool (PAT), help to find trends and flag transactions that warrant a closer look.

c. *Rates of Misuse*

Because the banks are not liable for instances of purchase card misuse, they have no mechanism for collecting that data or tracking it. However, due to the strong policies developed by the government to safeguard the purchase card, federal misuse rates are typically lower than industry.

d. *Government vs. Industry*

All purchase card clients are treated basically the same; but depending on the contract and the size of the client, the services available and rebate amounts may differ.

The purchase card rebate program is an incentive that works in two ways: it rewards purchase activity and rewards prompt payment. When a merchant accepts a customer purchase card, he agrees to pay a fee to the bank for the service of accepting purchase cards, usually 1.5–3.5% of the charged purchase. When a client, like the Navy, has a purchase card program, he is rewarded with a small percentage of the fee charged to the merchants. Additionally, the client is rewarded for paying the monthly bill early. For each day prior to the due date the bill is paid, he will get another small percentage back. There are many other benefits for an organization to implement a purchase card program:

(1) Access to useful purchasing data (data mining)
(2) Ability to implement automatic controls, without human intervention
(3) Available auditing tools to find/flag transactions
(4) Credit card company employs a fraud early warning team
(5) Credit card company takes on financial risk of fraud

Overall, a purchase card is a very valuable tool. Not only does the purchase card program enable a fast and efficient method of payment, it also provides protection against fraud and gives a refund. It can also provide an economical means of extracting purchase data to look at trends and develop purchasing statistics.

B. OPINION INTERVIEWS

Because this project is mostly focused on the various effects of the acquisition process on operational units, it was important to contact subject matter experts and

stakeholders in the contracting and purchase card arena, as well as those in the position to make or change the policies.

The questions asked were:

(1)   Why hasn't the Navy/DOD/government increased the purchase card limit?

(2)   Are there specific entities, rules, or restrictions preventing an increase?

(3)   What are some concerns if the purchase card limit was increased?

(4)   Are the internal controls currently in place sufficient?

(5)   How could we best utilize the saved FTE resources at FLC?

a.   *Type Commander Interview*

The "primary day-to-day management responsibility for the program lies with the APC in the Navy major commands" (GAO, 2002). Since the type commander (TYCOM) is the first level of oversight for the purchase card program in the fleet, it is important to understand how an increase in the transaction limit might affect them. TYCOM also assists the units with training, assist visits, and conducts the inspections.

(1)   Did not discuss.

(2)   Did not discuss.

(3)   There are three major concerns that we look at with the purchase card program: fraud, abuse, and Financial Improvement and Audit Readiness (FIAR) compliance. Every single month, there is at least one fraudulent transaction in our card program. Although these cases are reported quickly and are not usually a liability for the ship, an increase in the purchase card limit would enable larger fraudulent charges to become the norm. We have approximately 400 purchase cards in the 150 units that we oversee. Nearly every month there is an incident of misuse. There is not a prevalence of sailors using the card for person gain; however, there are frequent transactions that need to be reversed due to a mistake or items that should have been purchased through other means. Finally, the FIAR is a looming change that expects budgetary transparency. However, in a recent inspection on one of our ships by the Naval Audit Service, 20% of the purchase card transactions did not have any documentation. If the purchase card limit

were to increase, there would be more purchases made by the ships and that undesirable behavior could increase.

(4)   Did not discuss.

(5)   Did not discuss.

Afloat Training Group Interview

The Afloat Training Group (ATG) is a subset of TYCOM. According to the website, an ATG "provides dynamic, quality afloat training to Navy and Coast Guard Sailors to ensure a combat ready force capable of performing a broad spectrum of maritime missions" (ATG, 2014). In addition to training, they also audit and inspect most programs on the ship.

(6)   It is time to increase the purchase card limit, up to $4,000 or $5,000. This amount is recommended because prices have increased, and most commands are required to have the CO sign purchases that are greater than $5,000. The benefits of increasing the purchase card transaction limit are (1) improve the buying power of the ship, (2) reduce the contracting backlog, (3) decrease or eliminate split purchases, and (4) efficiently improve the logistical readiness of the ships.

(7)   Not discussed.

(8)   There needs to be more controls in place than just the electronic systems, a continued effort to audit programs and APCs must be more proactive to provide better oversight and training.

(9)   There are very few, if any, misuse issues in the fleet; however, there are accountability issues. APCs need to be more involved in the oversight process and hold the AO and cardholder accountable with corrective and disciplinary actions.

(10)   Not discussed.

b.   Fleet Logistics Center Interview

According to the website, Fleet Logistics Center (FLC) "provides logistics support services to the fleet, wing, and shore commands of the Navy and Air Force, the Coast Guard, the Military Sealift Command, and other joint and allied forces…to deliver supply chain management, contracting, transportation, defense fuel products and worldwide movement of personal property" (FLC, 2014).

FLC is one of the three main procurement outlets for operational units and the one who has the potential to feel the most change with an increase in the purchase card transaction limit.

(1)   An increase in the purchase card limit will further reduce the number of purchases that are going to small businesses.

(2)   Most of the limiting restrictions in place are policies to promote small business. Promoting small business is the backbone of the economy. If the limit is increased, there is a greater likelihood of circumventing competition and moving away from small business purchases.

(3)   If there was a procedure in place that required commands to find three quotes and justify purchases on their own, who would police that process? FLC already has issues because too many commands are not providing three quotes for a contract request. FLC had to establish a new process to research single-quote requests because commands were either too busy to do the research or not putting forth the effort.

(4)   There are a few internal controls that could be implemented which would lessen the risks associated with an increase in the purchase card limit. First, create a navy enlisted classification (NEC) specialization code for government purchase card (GPC) experts that would require an annual recertification and continuing training. Second, increase the curriculum at A-School for purchase card program topics. Third, increase the frequency of Procurement Performance Management Assessment Program (PPMAP) audits or ATG purchase card inspections.

(5)   Strategic sourcing vehicles are the next big emphasis in government. If requirements were combined, not just with the Navy or DOD, but the entire government, into a single contract that the government could order against, multiple government contracts to the same vendor for the same service could be avoided, better prices could be secured, and service variances could be reduced. These vehicles could have a requirement built in, as applicable, to include the use of small businesses at a certain level (hiring local subcontractors, for example). By consolidating requirements for purchases like office supplies, office furniture, and janitorial supplies, we could create economies of scale and leverage cost savings across a larger purchase.

c.   CCPMD Operational Interview

The Consolidated Card Program Management Division (CCMPD) is the primary resource for training and policy for the Navy purchase card program. It is important to understand what changes needed to be made for the internal controls. Also, the average purchase card transaction is below $1,000, so there does not appear to be a need to increase the limit.

(1)   Those making the policy decisions are not considering the effects on the operational side, but overarching views. Although increasing the limit will probably better facilitate the user, it might not take into account other political, statutory, or regulatory aspects of the program such as its effect on small business.

(2)   Unions have a big stake in the Davis Bacon Act, the law is to their benefit.

(3)   If the purchase card limit were to increase, small business would be affected. Turnover, especially in the military, is very high. The APCs have a steep learning curve and the initial training requirements may not be sufficient for the nuances of the program. An increased purchase limit would increase the likelihood of misuse and fraud. Finally, there is a big education and experience difference between a contracting officer and a cardholder. Increased purchase card limits may eventually require cardholders to increase their education level.

(4)   An increase to $4,000 or $5,000 would be doable, without affecting small business. An increase in the ceiling of the simplified acquisition threshold (SAT) would also help. If the increase goes beyond $5,000 there should be another layer of approvals incorporated into the purchasing process. Also, a large increase should not be across the board, but selective. Although not part of the current policy, AOs should review and approve requests before purchase. Incorporating the System of Award Management (SAM) could assist the cardholder with identifying small businesses. SAMs has consolidated the capabilities of multiple vendor lists and databases to identify irresponsible vendors and small businesses. Finally, CON 237 is not a useful course for a cardholder. If another course, more suitable to an Ordering Officer function, were established, it would be more effective and provide the appropriate level of education needed for those types of transactions.

(5)   Adding FTE to assist a large, complicated contract before the award is made will not improve or speed up the award process. Most delays in the contracting process are not something that increased manpower can fix (legal advice, approvals…). However, if the FTE could be applied after the contract award, during the contract management period, the extra manpower may have more effect on savings and decreasing wastefulness during the contract period.

d.   CCPMD Policy and Oversight Interview

The Consolidated Card Program Management Division (CCMPD) is the primary resource for training and policy for the Navy purchase card program. It is important to understand what changes needed to be made for the internal controls.

(1)   The risk of misuse without proper program oversight needs to be mitigated before increases will be considered. There are other laws that are also impacting the increase of the purchase card, like Davis-Bacon and Services Contract Act.

(2)   The Ronald Reagan Act does allow the Federal Acquisition Regulation (FAR) counsel to increase acquisition programs for inflation every five years using the consumer price index (CPI). This is what brought about the increase to $3,000 in FY07.

(3)   The purchase limit can safely be increased to between $8,000 and $13,000 using current control mechanisms. There are also applications that cardholders can use now, with proper training. For example, another service is currently using cardholders to spend up to $25,000 against "pre-priced" contract vehicles, like blanket purchase agreements (BPA) and indefinite delivery/indefinite quantity (ID/IQ) orders. The purchase card limit could safely be increased to $10,000 and still maintain the intent of competition and small business rules if commands were required to use a "best practices" form for purchases over a certain amount. Such a form could require three quotes and a justification about why a particular vendor was selected. It could be approved by a higher command and kept with the purchase documentation for audit purposes.

(4)   The controls currently in place are sufficient; however they will need to be adjusted to fit the parameters of the new limits. There could also be increased scrutiny of the higher level purchases. Finally, rather than an across the board increase, there could

be special, specific simplified acquisition procedures (SAP) training for only a selected portion of the cardholders to minimize risk. For example, designating only one person at each command could make purchases over $3,000.

(5)   Did not discuss.

e.   *Naval Supply Systems Command Interview*

"The commander of Naval Supply Systems Command (NAVSUP) is designated as the Navy's chief contracting officer and under his command is the Navy Purchase Card Program" (GAO, 2002). NAVSUP is the contracting arm of the Navy; and they ensure the Navy is following the rules regarding contracts

(1)   The Navy/DOD/government is risk adverse. A purchase card transaction increase will just increase the amount of purchases going to "big box stores" and reduce those going to small business.

(2)   Did not discuss.

(3)   It would be reasonable to increase the purchase card limit within the range of $8,000 to $13,000; however, any purchase above $10,000 should have to be completed by someone with 1402 contracting authority. Once a requirement exceeds $10,000 there is an increased potential for pricing discounts using competition. The focus for this size of contract should be on using the suites of existing contracts and following fair opportunity competition rules to maximize savings with larger requirements.

(4)   There should also be more training on how to use existing BPAs, ID/IQs and reverse auctions; and increase the use of DOD electronic mall (EMALL) and General Service Administration (GSA) Advantage.[3] If cardholders were more knowledgeable about these vehicles, they could purchase a wide variety of common-use items without a special contract in place for their command. Increasing the use of these pre-populated vehicles would also decrease risk because it has established pre-negotiated prices and made specific items available.

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[3] One drawback to DOD EMALL and GSA Advantage is that their pricing structure is built on purchasing one item. There is no mechanism in place to receive a discount when purchasing multiple items.

(5)   FLC resources could be better used by leveraging their skill and experience to make pre-populated contract vehicles for cardholders to use, ensuring the best price available. The NAVSUP representative stated that the Assistant Secretary of the Navy, Research, Development, and Acquisition (ASN (RD&A)) said that we spend $93 billion on contracts, 80% of which are written to only 200 vendors. In some cases a single vendor may have 200 or more individual contracts from different government agencies at any given time. These redundant contracts are highly inefficient for both parties and the government is subjected to a wide range of rates and terms for the exact same product or service.

Contracting facilities could leverage their training and experience to better assist individual units who only write a handful of contract requests a year. First, they could focus on writing better contracts that multiple entities could take advantage of with the purchase card. Second, they could assist customers who need to write a statement of work for a service contract; most commands do not fully understand what they require and therefore write very poor statements of work. Third, they could work with customers to find the core requirement; many times what a customer needs and what they believe will satisfy that need are two entirely different things. Finally, contracting facilities could leverage existing systems so they could better track successes and failures to measure the effectiveness of what they are contracting.

f.   Small Business Administration Interview

According to the website, "the U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist, and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation" (SBA, 2014). Because so many of the preceding interviews mentioned, and even emphasized, small business as a concern for purchase card limit increases, this study contacted the small business advocates directly.

(1)   41 US Code 1908 – Inflation Adjustment of Acquisition Related Dollar Threshold allows the Federal Acquisition Regulatory (FAR) Council to increase limits

with inflation every five years. Another adjustment is due in 2015, and they are responsible for implementing the inflationary adjustment.

(2)   SBA is concerned about inflation adjustments because it directly affects procurements that are exclusively set-aside for small business. Purchases above the micropurchase threshold ($3,000) and below the simplified acquisition threshold (SAT) ($150,000) are set aside for small business participation, in accordance with 15 USC 644(g) (sec. 15(g) of the Small Business Act). This is especially relevant and troublesome when the micropurchase threshold is adjusted upward and the SAT remains unadjusted.

(3)   Purchases made using the purchase card do not have a mechanism in place to track if the source of supply was a small or large business. Purchase card data is not reported for individual transactions, but in aggregate. This makes it difficult for the SBA to determine if small businesses are being utilized to the maximum extent practicable in accordance with statute.

(4)   SBA would not be concerned about an increase, if there was legislation drafted requiring the use of small businesses below the micropurchase threshold, where small businesses were identified that could meet the requirements. In addition, buyers would be required to track and record the source of supply below the micropurchase threshold to assist senior managers in assessing the federal small business industrial base.

There is a Naval Civilian Small Business Specialist at support activities like the Fleet Logistics Center in the Office of Small Business Programs, as well as a Small Business Administration Procurement Center Representative. They are there to support and assist with research.

(5)   Not discussed.

g.   *Defense Procurement and Acquisition Policy Interview*

The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD(AT&L)) in cooperation with Under Secretary of Defense (Comptroller) has overall responsibility for DOD purchase card program" (GAO, 2002). According to the website, the Defense Procurement and Acquisition Policy (DPAP) "is responsible for all Contracting and Procurement policy matters including e-Business in the DOD. DPAP executes that policy through the timely update of the Defense Federal Acquisition

Regulation Supplement (DFARS), Procedures, Guidance, and Information (PGI) and DOD Directive 5000.1&2" (DPAP, 2014).

 (1) There is no opposition for increases for inflation; however, larger increases are opposed because of a lack of internal controls and small business concerns. The newest DOD Guidebook contains stronger controls.

 (2) The Davis Bacon Act is not a main reason for not increasing the purchase card limit.

 (3) Purchases made to small businesses will decrease. Also, since many card programs are not aware of or not utilizing the controls in place in the Guidebook, it creates a greater need for oversight. The government performed over $5 billion on the purchase card in FY13, we need to ensure we are giving the best value to the taxpayer.

 (4) The Navy has a very effective purchase card oversight program (CCPMD) which is well staffed to provide support. The other services have only 2 individuals each to perform those same tasks.

 (5) The savings associated with moving purchases from contract facilities to purchase cards may not provide the anticipated savings. There are more and more controls and requirements being placed on the purchase card, such as Green Procurement initiatives and requirements to verify vendors against blocked lists (Excluded Parties List System).

 This chapter investigated the current impacts of the purchase card and contracting program on operational units, broke down the contract process, interviewed industry procurement officials about purchase card programs, and spoke with stakeholders of the purchase card program.

 Chapter IV will compare and analyze the data collected in Chapters II and III, then use it to make the final conclusion and recommendations in Chapter V.

IV. INTERPRETATION AND ANALYSIS

In the previous chapters, this project presented the possibility of changing the purchase card program to better conform to current needs and constraints. The history of the purchase card was reviewed. Reports and articles related to the purchase card program and its history were presented. Readily available data from contracting and purchase card consolidated programs was presented. Interviews with purchase card users and subject matter experts provided information on common uses and practices regarding the purchase card. Finally, high-level stakeholders were interviewed to get an overall look at the policy concerns and ramifications that an increase to the purchase card limit could create, for both risk and reward.

This chapter will take the data collected and rearrange it into a useful format that can be used to build a decision model. Comparisons will be made of similar data structures to see how they affect each other and how they fit within the entire system.

A. DECISION

The purchase card limit should be increased beyond a mere adjustment for inflation. Any amount within $8,000 to $13,000 will provide greater effectiveness, allowing an operational unit to efficiently purchase more of what they need, when they need it. The Fleet Logistics Center (FLC) would be able to take their focus and experience away from thousands of small, insignificant purchases and give more attention to large dollar and more complicated contracts, ones that provide multiple opportunities for waste and misuse of taxpayer money and require ample attention to detail.

Based on the concerns and recommendations during the interviews, the following logic framework and analysis will be illustrated assuming an increase of the purchase card transaction limit to $10,000. The reasoning for this is (1) it is in the middle of the suggested effective range, (2) it is a nice, round number, (3) it was palatable to most stakeholders, with limitations, and (4) it will better illustrate the effects of the final recommendation.

1. Logic Framework

The logic framework for this project was to determine if the controls in place were sufficient to mitigate the risks of increasing the purchase card limit. This framework provides a visual picture of the primary concerns of the acquisition process and the controls in place to mitigate those concerns. Figure 16 illustrates the contracting controls, while Figure 17 focuses on the purchase card controls.

Figure 16.   Matrix of Risk Mitigation in Government Contracting

To use Figures 16–18, the reader would consider if the CONTROL in place actively addresses the CONCERN. An example for the purchase card chart would be: Does initiating a Request Document actively Prevent Misuse. The answer is yes, so the box is green. The reason the answer is yes is because by initiating a purchase request, a need is put on paper. This will be routed to a supervisor, who agrees that a need exists. When the request is routed to the Supply Department, they will verify that the need is valid and allowable for purchase. At the end of the month, this request will be routed with the receipt to the Approving Official (AO) and Agency Program Coordinator (APC) for final verification. Then, the request will be saved for six years (and three months), to be produced upon inspection and investigation. Submitting a request on paper prevents misuse.

Concerns	Controls	MICROPURCHASE AT $3,000										WITH INCREASE TO $10,000					
		Request Document	Training	Transaction Limit	Monthly Limit	AO Approval (prior)	Mandatory Sources	MCC Codes	AO/APC Review (after)	PAT	ATG Audit	A-School Training	NEC	FLC Establish More BPAs	APC Manage Limits		Best Practice Form
Prevent Misuse																	
Minimize Govt Risk																	
Support Small Business				N/A	N/A			N/A		N/A					N/A		
Competition/Best Price				N/A	N/A			N/A		N/A					N/A		
Save $$					N/A			N/A							N/A		
Speed					N/A			N/A									

Figure 17.   Matrix of Risk Mitigation in Government Purchase Cards

The remaining controls are described as follows:

(1)   Training. Prior to assuming a role in the program (cardholder, AO, APC, or Head of Activity), role training is required. This online training is accomplished through the Consolidated Card Program Management Division (CCPMD) website, and refresher training is required every two years. Ethics training, also available through CCPMD, is required annually. Defense Acquisition University (DAU) purchase card role training is a one-time requirement. Finally, after the APC completes the annual update to the local purchase card internal operating procedures (IOP), training for all AOs and cardholders is required. The IOP should be updated by re-reading the NAVSUP Instruction 4200.99B, considering the current state of the local program and making adjustments that could make the local procedures more restrictive than the instruction requires. Some operational programs require additional training to provide greater role awareness. For example, the AO must also complete the cardholder training and the APC must also complete the AO and cardholder training.

There are other training courses available to enhance learning, including training to receive a 1402 contracting warrant; this enables the cardholder, with approval, to purchase up to $150,000 with the purchase card using pre-established contracting vehicles, like a BPA.

(2)   The current standard transaction limit for government purchase cards is a maximum of $3,000 for supplies, $2,500 for services, and $2,000 for construction projects and materials. As discussed, the limit can be increased with required special training or when using the purchase card as a method of payment (MOP) on a contract.

(3)   The monthly limit for each cardholder should be reviewed annually and adjusted, as necessary, depending on how much purchasing power the cardholder requires. An average of monthly purchases over time will provide an estimate of the required monthly limit. At no time should an arbitrarily high limit be assigned, as this would provide an opportunity for misuse of the purchase card and subject the government to unnecessary risk.

(4)   The AO is the first line of defense in the purchase card program. The AOs span of control is limited to seven cardholders, to maintain appropriate oversight of the cardholder activity. This critical position will verify that the purchase is valid, funding is available, mandatory sources have been checked, and the request paperwork is sufficient to make the purchase. Neither the AO nor APC can be a cardholder in the program they manage.

(5)   Mandatory sources have been established by contracting facilities to take advantage of bulk buying opportunities and to assist cardholders with assigning purchases to small business through blanket purchase agreements (BPA) like Department of Defense (DOD) electronic mall (EMALL) and General Service Administration (GSA) Advantage. This decreases government risk by negotiating prices in advance and limiting the items available for purchase.

(6)   Merchant category codes (MCC) are used to categorize each merchant according to the type of business the merchant is engaged in and the kinds of goods and services provided (NAVSUP, 2012). A bank or APC can adjust settings in the purchase card program to restrict the cardholder from making purchases at specific types of establishments. Establishments that might be blocked are restaurants, entertainment venues, and toy stores, as these establishments typically do not conduct business with the military or government.

(7)   After the purchase and the item appears on the billing statement, the AO and APC verify the purchase documents to verify that the receipt matches the item stated on the purchase request, that all signatures and supporting documents are in place, and the item has been received and turned over to the requestor.

(8)   The Program Audit Tool (PAT) is an electronic program designed to flag questionable transactions for extra review. It will flag transactions that exceed the purchase limit, appear to be split purchases, and include other random transactions. The purpose behind this is to have the AO and APC double-check these transactions for validity, add a contract number (if it is a MOP), and provide an explanation of any other questionable items. These explanations will be forwarded to the next level APC for further review.

(9)   Finally, the Afloat Training Group (ATG) is charged with inspecting the purchase card program every 18 months to verify that processes and controls are in place and effective, training is up to date, and the rules are followed. They will request a random sample of purchases and walk through each one to verify that the proper steps were followed.

Because the risk of fraud and misuse are inherent in an operation where thousands of dollars trade hands on a daily basis, the controls in place and the people in those roles are a necessary steps to keep taxpayer dollars going to their intended purpose (Keeney, 2007).

Industry Practices

Executives from industry were interviewed to get an overall picture of how purchase card programs in for-profit companies compare with the government system. The author of this project expected that industry purchase card programs would differ from the government, but the differences in controls were much wider than anticipated. Although they typically have smaller transaction limits, industry programs do not require documentation for a purchase. Instead of personnel oversight, they rely heavily on computer programs. Some programs have grey areas for very small infractions and most are quicker than the government to revoke purchasing ability.

First, industry purchase card programs have fewer controls on purchase limits. Although most companies have general purchase card limits at approximately $1,000, an individual's purchase card limit can be set higher, as needed for their mission, with no set upper limit. Most companies make frequent use of the ability to raise and lower purchase card limits within the bank program.

Second, industry purchase card programs do not require a written request for a purchase. A typical purchase has no documentation to indicate what was requested, by whom, and for what purpose. There is also no requirement to have approval from the requestor's supervisor, nor from the purchasing supervisor. Each company has a few specific items that do require supervisors' approval prior to purchase. These can be documented on paper or in a printed e-mail and must be included with receipt submission.

Third, except for data mining and queries during the month, industry purchase card purchases are only reviewed after the statement is released from the bank. At the end of the period, all receipts are submitted with the statement to the more senior purchase card supervisor. Most companies do have a strict receipt policy, where every transaction must be matched with a receipt; however, many receipts are not specific enough to determine what was purchased. If there is ever a question about a purchase made in the past, these companies would be relying primarily on cardholder memory. Most companies will not retain the services of a cardholder who fails to provide receipts for more than a couple of purchases over more than a couple of months.

Fourth, like the government program, the banks have software for building queries and monitoring the purchase card program. The senior purchase card officials rely heavily on these systems for monitoring unusual behavior and questionable purchases. Many cardholders in industry are assigned to divisions or programs outside the purchasing department and in some cases are physically located in other states across the country.

Finally, industry purchase cardholders generally complete varying degrees of training and testing prior to receiving a purchase card. Most are given ethics training and most companies require refresher training, just like the government. So, when a cardholder makes a questionable purchase or misuses the purchase card, they usually only get one or two chances before they are removed from the purchase card program. Initial incidents are usually considered mistakes; and although they are treated as a learning experience, most companies still document the infraction. Repeated incidents are not tolerated.

Concerns	Controls	Request Document	Training	Transaction Limit	Monthly Limit	AO Approval (prior)	Mandatory Sources	MCC Codes	Review (after)	Software Queries	
					INDUSTRY PURCHASE CARD PROGRAMS						
Prevent Misuse		RED	GREEN	GREEN	GREEN	RED	N/A	GREEN	YELLOW	YELLOW	
Minimize Risk		RED	GREEN	GREEN	GREEN	RED	N/A	GREEN	GREEN	GREEN	
Efficiency		GREEN	GREEN	YELLOW	YELLOW	GREEN	N/A	YELLOW	GREEN	GREEN	
Speed		GREEN	GREEN	YELLOW	YELLOW	GREEN	N/A	YELLOW	GREEN	GREEN	

Figure 18.   Matrix of Risk Mitigation in Industry

Figure 18 shows a similar matrix to that of the government matrix in Figure 17. In order to keep the program economical for the company, industry purchase cards allow more freedom in purchasing and oversight. Although they have looser restrictions, they do minimize the overall risk by keeping transaction and monthly limits lower than the government and minimizing the number of purchase cards in use. This lack of accountability and oversight in purchasing requirements would not be acceptable for the government, due to rigid constraints to make sure that taxpayer dollars are not being wasted on unnecessary purchases.

2.   Analysis

The recommendation to increase the purchase card transaction limit is based on the specific information collected in Chapters II and III and the analysis completed in the this section.

Adjusted for inflation, the $2,500 micropurchase limit set in 1994 would only have the purchasing power of $1,562 today, according to the consumer price index (CPI) (CoinNews, 2014). Simply to maintain the intended purchasing power, the micropurchase limit should be increased to $4,000 (CoinNews, 2014); however, greater efficiencies would be realized if the limit was set between $8,000 and $13,000.

If the manpower footprint in the contracting facilities can be reduced or better utilized, the savings associated with increasing the purchase card have the potential to be huge. In this section, the project will intimately look at the costs of creating a contract.

Number of Contracts Written

In Chapter II, summarized data about FLC contracts was presented. This data showed that the Navy spent $4.95 billion against 22,000 contracts in FY13. The initial project analysis began with a supposition that there should be a new purchase card transaction limit and it should fall somewhere between the current micropurchase limit of $3,000 and $25,000, the threshold for the simplified acquisition procedures (SAP). Therefore, this analysis will focus on contract and purchase card transactions that fall between $3,000 and $25,000.

Figure 19 shows that contracts below $25,000 make up only 3% of all spending for FLC contracts.
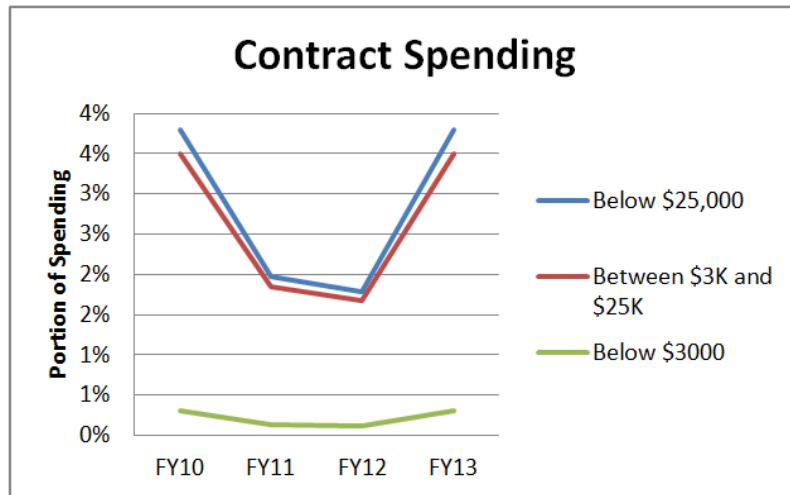
Figure 19.   Percentage of Contract Spending Below $25,000 (after FLC, 2013)

Figure 20 shows that contracts below $25,000 make up 75% of contract transactions. It appears that the Navy is spending considerable time and effort on contracts that may not warrant the attention and delay in the acquisition of supplies.
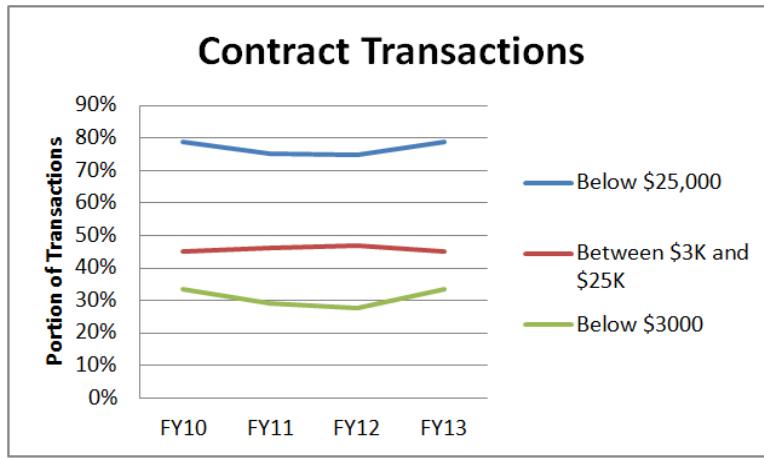
Figure 20.   Percentage of Contract Transactions Below $25,000 (after FLC, 2013)

Figure 21 breaks down the number of contracts written in each of the last four years to show how many contracts are written at each dollar value. For example, in FY10, there were 1,500 contracts written for requirements between $6,000 and $7,000.
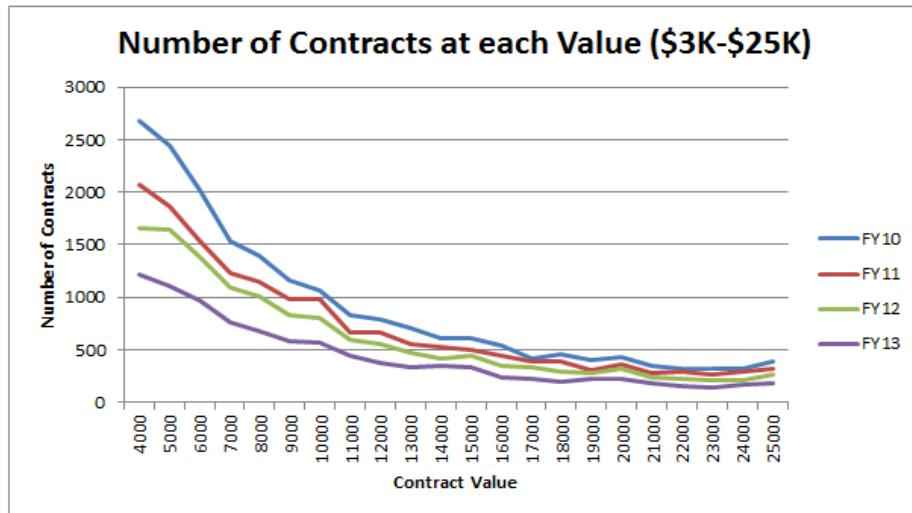
Figure 21.   Number of Contracts Between $3,000 and $25,000 (after FLC, 2013)

Figure 21 also illustrates that the number of contracts written decrease significantly as the total contract value increases.

75

Cost of Writing Contracts

Manpower in government organizations is measured using full time equivalents (FTE). An FTE is a unit of measuring a person's working time in a format that compares easily across functions. For example, you can have one employee who works 40 hours a week or four employees who each work 10 hours a week; either of these examples equates to one full-time position, or one FTE. An FTE is worth 2,080 hours of paid working time in a year (GAO, 2014b).

For the purposes of this study, Figure 22 was used to calculate the actual available working time available for one FTE in a year. A standard 15% or 320 hours a year are consumed by national holidays (at least 10 per year) (OPM, 2014), vacation days, and sick days which equates to 1,760 working hours of usable time for a typical FTE.

FTE Calculation			
	85%	hours off	days off
FTE	2080	per year	per year
1760		320	40

Figure 22.   FTE Calculation (after GAO, 2014b)

In order to determine how many FTE could be saved in the FLC contract process, Figure 14 was used as a guide to build the calculation system in Figures 23–32. Note that Figure 14 is a real-life time depiction of work time that considers bathroom breaks, meetings, phone calls, and other tasks; whereas this FTE determination assumes that the only task in a particular day is this one task of the contract process. Figure 23 assumes the tasks in question are the only tasks an FTE completes that day, and he does them in a continuous process all day long.

There are various tasks in the process of writing a contract and it begins with a review by the Comptroller to verify funding available and confirm the purpose, time and amount are not excessive or incompatible with current purchasing rules.

If this was the only function of this position:	(Time, Purp, Amt) Comptroller	Print & Deliver Tech	(Comms back and forth to unit)			(Research)	
			Review	RFI	Review	Sole Source	Assign Buyer
one task takes _ min.	10	3	4	6	4	180	2880
# tasks per hour	6	20	15	10	15	0.33	0.02
# tasks per FTE	10,560	35,200	26,400	17,600	26,400	587	37

Figure 23.   Tasks Per FTE (after FLC, 2014)

For example, Figure 23 shows that to complete the Tech task, a Procurement Technician enters Funding Document Manager (FDM) and prints one contract package. He adds a coversheet and checklist, staples it, and delivers it to the Technical Screener's desk for further review. To actually accomplish this task for one contract takes 3 minutes. If a task takes 3 minutes to accomplish, he should be able to print and deliver 20 contracts in one hour. Since there are 1,760 task hours in an FTE year, the Procurement Technician can print and deliver 35,200 contracts a year.

A more complicated, but relevant, example is the Buyer. In Figure 14, the Buyer timeline includes a lot of time spent waiting for answers, call-backs, the bidding process, and so on. However, when figuring the FTE used for this calculation, the down-time was compressed to remove all time spent waiting on someone else's action. In Figure 23, if a Buyer had only one contract to work on and he worked it continuously until it was complete, he would require 2880 minutes (48 hours or 6 working days) to complete a contract. That means one Buyer FTE can complete 37 contracts in a year. In real time, a Buyer would normally have 3–5 contracts in various stages on his desk at any given time, working bits and pieces of each one each day.

Determining how many tasks a person can complete in a year is not helpful to determine how much of an FTE one task consumes. To calculate how many FTEs are used for one task, or contract, refer to Figure 24. If there are 1,760 hours in one FTE, then there are 105,600 minutes available. Since most of the tasks take only minutes, one task uses up a very small piece of an FTE; however, as one moves to the larger tasks, like the Buyer, we can see that one contract/task takes almost 3% of his annual time available. This makes sense if you consider he is supposed to be able to complete 37 contracts/tasks during one year.

If this was the only function of this position:	(Time, Purp, Amt) Comptroller	Print & Deliver Tech	(Comms back and forth to unit) Review	RFI	Review	(Research) Sole Source	Assign Buyer
one task takes _ min.	10	3	4	6	4	180	2880
# tasks per hour	6	20	15	10	15	0.33	0.02
# tasks per FTE	10,560	35,200	26,400	17,600	26,400	587	37
FTE Minutes Avail	105,600	105,600	105,600	105,600	105,600	105,600	105,600
Min. Required/task	10	3	4	6	3	180	2880
FTE's Used/task	9.47E-05	2.84E-05	3.79E-05	5.68E-05	2.84E-05	0.00170	0.02727

Figure 24.   FTEs Used per Task/Contract (after FLC, 2014)

The individual tasks in Figure 24 can be added up, indicating that one completed contract uses up 3% (.0292) of an FTE. In order to figure out the savings across a whole batch of contracts, refer to Figures 25-30. These figures will lay out the process of determining how many contracts are written at each price level, how many of these contracts will have to remain at FLC because they are risk-heavy transactions, and how to translate these into a number of FTE saved by using a purchase card at an increased level.

CONTRACTS WRITTEN

Raise the limit to include:	FY10	FY11	FY12	FY13	Average
Contracts $3000-4000	2,680	2,065	1,661	1,218	1,906
Contracts $4000-5000	2,448	1,869	1,649	1,105	1,768
Contracts $5000-6000	2,018	1,528	1,386	970	1,476
Contracts $6000-7000	1,539	1,230	1,094	756	1,155
Contracts $7000-8000	1,390	1,152	1,010	676	1,057
Contracts $8000-9000	1,163	986	829	580	890
Contracts $9000-10000	1,069	989	802	575	859
Contracts $10000-11000	836	660	603	441	635
Contracts $11000-12000	795	671	553	378	599
Contracts $12000-13000	711	557	470	328	517
Contracts $13000-14000	616	527	419	345	477
Contracts $14000-15000	609	504	439	337	472
Contracts $15000-16000	545	441	353	245	396
Contracts $16000-17000	416	394	328	224	341
Contracts $17000-18000	453	393	299	198	336
Contracts $18000-19000	401	302	275	230	302
Contracts $19000-20000	435	362	319	227	336
Contracts $20000-21000	353	281	237	181	263
Contracts $21000-22000	320	289	222	155	247
Contracts $22000-23000	320	265	216	144	236
Contracts $23000-24000	320	288	204	167	245
Contracts $24000-25000	395	318	264	187	291

Figure 25.   Contracts Written FY10-13 (after FLC, 2013)

Figure 25 shows how many contracts FLC completed at various price levels over the four years of the study. There is an additional column that provides the average over the four years. For example, if the purchase card limit were increased to $4,000, an average of 1,906 contracts would be candidates for purchase on the purchase card.

Under normal circumstances, the average data would be a valid number to use for predicting future contracts; however, notice that the number of contracts has steadily decreased over the four years of the study. Since the total amount spent on contracts decreased as well (as did the purchase card numbers), this is being attributed to an overall decrease in budget across the Navy. Therefore, the FY13 numbers have been chosen as a better measure of expected future behavior. This will help determine how many candidate contracts there are for transitioning to purchase cards. A candidate contract is a requirement that is currently sent to FLC for procurement, but may not need to be if the purchase card limits are increased.

Several of the figures presented in past chapters have shown that despite the introduction of the purchase card, there are still a considerable number of FLC contracts written for requirements below $3,000. There are certain times when purchases under the purchase card limit must still go to contracting. For example, when there is a service other than delivery and installation, the agreement requires "terms and conditions" which must be completed by contract. Also, due to the responsibility and risk associated, airplane parts and non-common use hazardous material (HAZMAT) must be contracted. Without a contract, there is no control or recourse if the wrong part is ordered, delivered, does not function as required, or causes a mishap.

To determine what percentage of total purchases below $3,000 are contracted through FLC, this study compared the FY13 data for contracts and purchase card purchases in Figure 26. The chart on the left provides a summary of the quantity of transactions made using both purchasing methods. It shows that 97% of purchase card transactions and 30% of contracts fall below the $3,000 micropurchase threshold. The chart on the right shows that 69% of purchase card and 0% of contracting dollars were spent below the $3,000 threshold.

Compare: Purchase Card & Contract Historical Data

Transactions (#)	FY13	
	Purchase Card	**Contract**
All purchases	1,178,257	22,243
Below $25,000	1,175,748	16,243
Below $3,000	1,147,571	6,575
$3001 - $25,000	28,177	9,668

Spending ($)	FY13	
	Purchase Card	**Contract**
All purchases	$1,143,636,418	$4,954,618,415
Below $25,000	$1,014,591,699	$ 103,836,533
Below $3,000	$ 784,202,168	$ 7,595,709
$3001 - $25,000	$ 230,389,531	$ 96,240,824

Below $3,000	97%	30%
$3001-$25,000	2%	43%
% of $3K business	99%	1%

Below $3,000	69%	0%
$3001-$25,000	20%	2%
% of $3K business	99%	1%

Figure 26.   Transaction Comparison (after FLC, 2013; CCPMD, 2014)

Notice that when the total contracts and purchase card purchases are combined in Figure 26, contracts make up less than 1% of all contract and purchase card transactions below $3,000.

When this study considered what percentage of contracts might have to remain with FLC despite an increase in the purchase card limit, it was logically concluded that 1% of the contracts at each level should remain a contract and 99% of the contracts could be diverted to the purchase card. Looking at Figure 27, 1% of contracts was unrealistically small. Figure 20 showed that the number of purchases drastically decreased as the dollar figure increased. Because there are fewer purchases overall, there will be a greater percentage of requirements that need a contract. After considering that and applying various percentage rates, it was determined that the most reasonable percentage of transactions that might require a contract would be 20%.

		1%	5%	10%	20%	30%
	FY13	Aviation, HAZMAT, T&C:				
Contracts $3000-4000	1,218	12	61	122	244	365
Contracts $4000-5000	1,105	11	55	111	221	332
Contracts $5000-6000	970	10	49	97	194	291
Contracts $6000-7000	756	8	38	76	151	227
Contracts $7000-8000	676	7	34	68	135	203
Contracts $8000-9000	580	6	29	58	116	174
Contracts $9000-10000	575	6	29	58	115	173
Contracts $10000-11000	441	4	22	44	88	132
Contracts $11000-12000	378	4	19	38	76	113
Contracts $12000-13000	328	3	16	33	66	98
Contracts $13000-14000	345	3	17	35	69	104
Contracts $14000-15000	337	3	17	34	67	101
Contracts $15000-16000	245	2	12	25	49	74
Contracts $16000-17000	224	2	11	22	45	67
Contracts $17000-18000	198	2	10	20	40	59
Contracts $18000-19000	230	2	12	23	46	69
Contracts $19000-20000	227	2	11	23	45	68
Contracts $20000-21000	181	2	9	18	36	54
Contracts $21000-22000	155	2	8	16	31	47
Contracts $22000-23000	144	1	7	14	29	43
Contracts $23000-24000	167	2	8	17	33	50
Contracts $24000-25000	187	2	9	19	37	56

Figure 27.   Percentage to Remain Contracts (after FLC, 2013)

Looking at Figure 28, notice that as the purchase card limit increases, a decreasing number of FY13 contracts become candidates to be shifted out of FLC. Each line in the chart shows only shows contracts between the high and low range, however the "Total Contracts Removed from FLC" column represents a cumulative total (20% already taken into account) that can be removed. For example, if the purchase limit were to increase to $10,000, a total of 4,704 contracts could be removed from FLC.

| | | 20% | | |
Raise the limit to include:	FY13	- Contracts =	Total Contracts Removed from FLC
Contracts $3000-4000	1,218	244	974
Contracts $4000-5000	1,105	221	1,858
Contracts $5000-6000	970	194	2,634
Contracts $6000-7000	756	151	3,239
Contracts $7000-8000	676	135	3,780
Contracts $8000-9000	580	116	4,244
Contracts $9000-10000	575	115	4,704
Contracts $10000-11000	441	88	5,057
Contracts $11000-12000	378	76	5,359
Contracts $12000-13000	328	66	5,622
Contracts $13000-14000	345	69	5,898
Contracts $14000-15000	337	67	6,167
Contracts $15000-16000	245	49	6,363
Contracts $16000-17000	224	45	6,542
Contracts $17000-18000	198	40	6,701
Contracts $18000-19000	230	46	6,885
Contracts $19000-20000	227	45	7,066
Contracts $20000-21000	181	36	7,211
Contracts $21000-22000	155	31	7,335
Contracts $22000-23000	144	29	7,450
Contracts $23000-24000	167	33	7,584
Contracts $24000-25000	187	37	7,734

Figure 28.   Contracts to Remove from FLC (after FLC, 2013)

Next, the "Total Contracts Removed from FLC" column of Figure 28 was used to determine the total FTE saved by diverting contract requests to the purchase card.

If this was the only function of this position:	(Time, Purp, Amt) Comptroller	Print & Deliver Tech	Review	(Comms back and forth to unit) RFI	Review	(Research) Sole Source	Assign Buyer	
one task takes _ min.	10	3	4	6	4	180	2880	
# tasks per hour	6	20	15	10	15	0.33	0.02	
# tasks per FTE	10,560	35,200	26,400	17,600	26,400	587	37	
FTE Minutes Avail	105,600	105,600	105,600	105,600	105,600	105,600	105,600	
Min. Required/task	10	3	4	6	3	180	2880	
FTE's Used/task	9.47E-05	2.84E-05	3.79E-05	5.68E-05	2.84E-05	0.00170	0.02727	0.0292 FTE's/contract (task)
								4704 Contracts --> GCPC*
FTE's used/batch	0.45	0.13	0.18	0.27	0.13	8.02	128.29	137.47 FTE's saved (batch)

Figure 29.   FTE Saved per Year/Batch of Contracts (after FLC, 2013)

Figure 29 is used to translate the number of contracts removed from FLC and multiply it by the number of FTE used by one contract. This product will give the annual

FTE savings created by producing fewer contracts. For example, increasing the purchase card limit to $10,000 would remove 4,704 contracts from FLC. If each of these contracts used .0292 (2.9%) of an FTE, it would create a savings of 137.47 FTE each year.

According to the Office of Personnel Management (OPM), a GS-12 in Washington State earned $73,420 a year in 2013. Multiply that by the 137.47 FTE saved in Figure 29 and that equates to $10 million per year in available resources at FLC if the purchase card were increased to $10,000.

Using Figures 28 and 29, the chart in Figure 30 was completed for all 22 levels of contracts written to get the cumulative FTE savings from increasing the purchase card limit from $3,000 up to $25,000. The Delta column is the difference (or increase) from one limit to the next. For example, 25.85 additional FTE are saved when the purchase card limit increases from $4,000 to $5,000.

20%

Raise the limit to include:	FY13	- Contracts =	Total Contracts Removed from FLC	Total FTE Saved	Delta
Contracts $3000-4000	1,218	244	974	28.48	28.48
Contracts $4000-5000	1,105	221	1,858	54.31	25.83
Contracts $5000-6000	970	194	2,634	76.99	22.68
Contracts $6000-7000	756	151	3,239	94.66	17.67
Contracts $7000-8000	676	135	3,780	110.46	15.80
Contracts $8000-9000	580	116	4,244	124.02	13.56
Contracts $9000-10000	575	115	4,704	137.47	13.44
Contracts $10000-11000	441	88	5,057	147.78	10.31
Contracts $11000-12000	378	76	5,359	156.61	8.84
Contracts $12000-13000	328	66	5,622	164.28	7.67
Contracts $13000-14000	345	69	5,898	172.35	8.07
Contracts $14000-15000	337	67	6,167	180.23	7.88
Contracts $15000-16000	245	49	6,363	185.95	5.73
Contracts $16000-17000	224	45	6,542	191.19	5.24
Contracts $17000-18000	198	40	6,701	195.82	4.63
Contracts $18000-19000	230	46	6,885	201.20	5.38
Contracts $19000-20000	227	45	7,066	206.50	5.31
Contracts $20000-21000	181	36	7,211	210.74	4.23
Contracts $21000-22000	155	31	7,335	214.36	3.62
Contracts $22000-23000	144	29	7,450	217.73	3.37
Contracts $23000-24000	167	33	7,584	221.63	3.90
Contracts $24000-25000	187	37	7,734	226.00	4.37

Figure 30.   FTE Saved at Increasing Values (after FLC, 2013)

By stacking the Total FTE Saved numbers and building a picture of the savings, Figure 31 shows the cumulative effect when requirements previously purchased under contract are shifted to the purchase card.
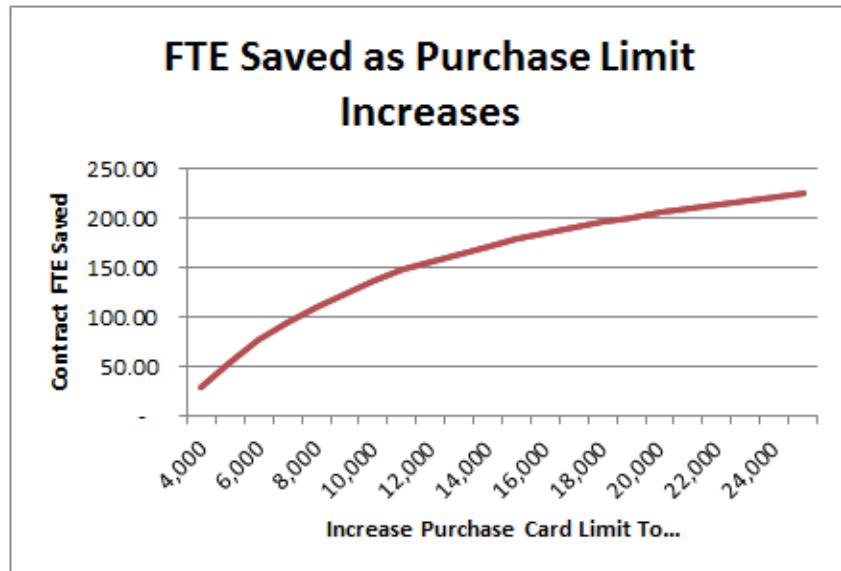

Figure 31.   Cumulative FTE Savings (after FLC, 2014)

Figure 32 shows the same information as Figure 31, but in a different way. Figure 32 shows how each jump in purchase card limit creates additional saved resources at FLC using the Delta column of Figure 30. Similar to the way a learning curve works, as the transaction level increases, less benefit is realized. In this case, as the value of the purchase increases, there are fewer purchases made and less FTE savings created when the work is diverted elsewhere.

So, where is the "sweet spot" where the Navy receives the most "bang for the buck"? Figure 32 shows that at the $13,000 level, the benefit of reduced FTE flat-lines and begins a slow decline. Once the purchase card limit has increased beyond $13,000, there is little incremental benefit to off-set the risks.
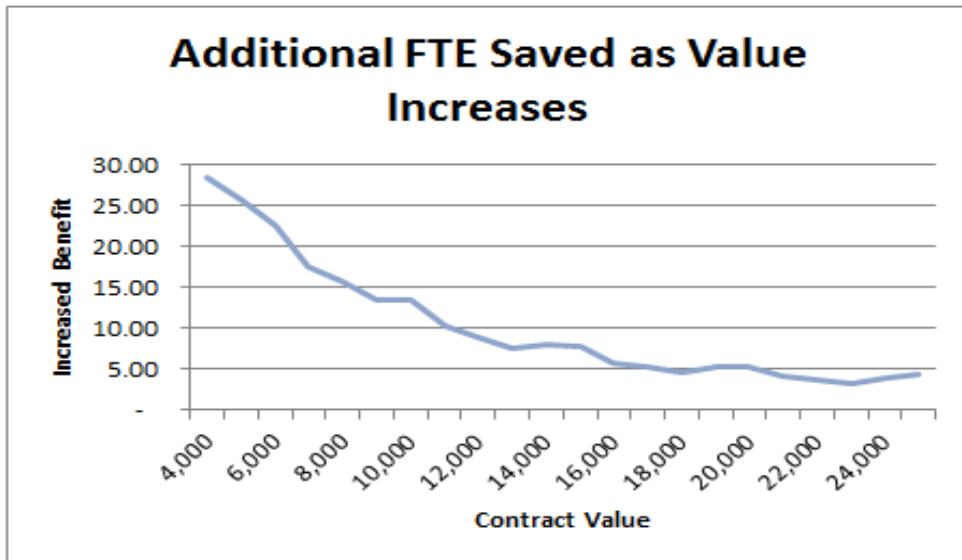
Figure 32.   Incremental FTE Savings (after FLC, 2014)

Figure 33 shows cumulative incremental increases in contract spending and transactions from $3,000 to $25,000. For example, in FY13, contracts between $3,000 and $4,000 use 4% of contract spending and 13% of contract transactions. Following this down the line, there is a consistent trend over the last four years, despite a change in budget, which indicates that 50% of the contracts written between $3,000 and $25,000 are reached at $8,000; while 50% of the contract money spent between $3,000 and $25,000 is reached at $13,000. This provides the logical zone of effectiveness where FLC contracts can be reduced by 50% if the purchase card limit is increased to $8,000. At this level, it only removes 25% of the contract spending from FLC contracting policies.

| | Contract Value | | | | Contract Transactions | | | |
| | Cumulative % | | | | Cumulative % | | | |
	FY10	FY11	FY12	FY13	FY10	FY11	FY12	FY13
Contracts $3000-4000	5%	5%	4%	4%	14%	13%	12%	13%
Contracts $4000-5000	11%	10%	10%	10%	26%	24%	24%	24%
Contracts $5000-6000	16%	15%	16%	15%	36%	34%	34%	34%
Contracts $6000-7000	21%	20%	21%	20%	44%	42%	42%	42%
Contracts $7000-8000	27%	25%	27%	26%	51%	49%	50%	49%
Contracts $8000-9000	32%	31%	32%	31%	57%	55%	56%	55%
Contracts $9000-10000	37%	37%	38%	36%	62%	61%	62%	61%
Contracts $10000-11000	42%	41%	42%	41%	66%	65%	66%	65%
Contracts $11000-12000	46%	46%	47%	46%	70%	69%	70%	69%
Contracts $12000-13000	51%	50%	51%	50%	74%	73%	74%	73%
Contracts $13000-14000	55%	55%	56%	55%	77%	76%	77%	76%
Contracts $14000-15000	60%	59%	60%	60%	80%	79%	80%	80%
Contracts $15000-16000	64%	63%	64%	64%	83%	82%	83%	82%
Contracts $16000-17000	68%	67%	68%	68%	85%	84%	85%	85%
Contracts $17000-18000	72%	72%	72%	71%	87%	87%	87%	87%
Contracts $18000-19000	76%	75%	76%	76%	89%	89%	89%	89%
Contracts $19000-20000	80%	80%	81%	80%	91%	91%	92%	91%
Contracts $20000-21000	84%	83%	84%	84%	93%	93%	93%	93%
Contracts $21000-22000	87%	87%	88%	88%	95%	95%	95%	95%
Contracts $22000-23000	91%	91%	92%	91%	96%	96%	97%	96%
Contracts $23000-24000	95%	95%	95%	95%	98%	98%	98%	98%
Contracts $24000-25000	100%	100%	100%	100%	100%	100%	100%	100%

Figure 33.   Cumulative Resources Used (after FLC, 2013)

1.   *The Questions*

The primary question was to determine if it is feasible to increase the purchase card transaction limit. Looking at the history of contracting, it was apparent that rules and regulations are being updated frequently to address both internal issues and to reflect the changing needs of society. In fact, the acquisition and purchase card rules have changed numerous times in the past 30 years, so more change is possible. However, there were more issues than simply changing the purchase card transaction limit that were involved with this analysis.

1.   The level of comfort stakeholders have about increasing the purchase card limit is based on comparing the expected risks with the perceived rewards. Many feel the risks to small business and the potential of opening the government to larger fraud possibilities are too great, and the savings gained by removing contract oversight are not worth the risk. Others believe that the controls in place will sustain an increase, but more training could ensure that the controls are used more effectively.

2.   This project provided an overview of historical legislation, regulations, and policies surrounding the procurement process for the government. Additionally, stakeholders in the programs provided amplifications of the reasons and concerns for the programs.

3.   Four companies were interviewed to determine the common threads of industry purchase card use and regulation.

4.   Chapter V will present the main topics of the research, give a recommendation and several subsequent actions to be implemented, as well as suggested topics for further research.

Previous chapters discussed the issue of increasing the purchase card transaction limit, provided data to understand the issue, introduced information from subject matter experts (SME), and provided opinions and concerns from the policy and leadership perspective.

This chapter provided a detailed analysis of the costs and time associated with subjecting low dollar, low risk requirements to the same, or similar, processes of high dollar, complex requirements.

Chapter V will summarize the project and provide recommendations for implementation and further study.

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V.   SUMMARY

The government purchase card (GPC) transaction limit needs to be increased to between $8,000 and $13,000 in order to keep up with inflation and to allow contracting resources to focus their attention on larger, more important contracts. This project examined the regulations, risks, and concerns regarding an increase in the transaction limit of the purchase card.

This research is important because according to the 2012 Defense Strategic Guidance, we "must continue to reduce the cost of doing business" (Secretary of Defense, 2012) to keep ahead of fiscal constraints. Also, the 2014 Quadrennial Defense Review more specifically mentioned "continuing to implement acquisition reform efforts" (Secretary of Defense, 2014) where the government seeks to find efficiencies and support Better Buying Power across the force. Therefore, any increase in the purchase card limit beyond the intended purchasing power would result in greater mission readiness for operational units and a cost savings across the acquisition process. Significant full time equivalents (FTE) and financial savings could result from reducing the workload dedicated to small contracts. This would free up valuable time and resources at the Fleet Logistics Center (FLC) that could then be devoted to better managing larger contracts after award and creating solutions for cardholders that would benefit the government as a whole. The potential for savings in this manner is far greater than a mere reduction in personnel costs.

A.   THE BEGINNING

The initial rationale for studying this topic began with a real-life need for increasing the purchase card limit based on one specific incident. There are many stories like it, but this story is mine. A couple of years ago, our ship was making last-minute preparations to go on deployment. It was Thursday morning and we were scheduled to deploy on Monday. Suddenly, during testing, a huge valve to a critical piece of equipment broke. The division scrambled to fix it, but it was beyond repair. A replacement valve was located at a nearby business and it was immediately available to

install, except that it cost nearly $10,000, which greatly exceeded our purchase card limit. We had the funds available, but we were not able to buy it.

The division began preparing the necessary purchase paperwork, while the Supply Department called FLC to let them know a critical request was in process. Each piece of information was forwarded to FLC as soon as it was received so they could start working on it immediately. In the end, FLC pulled out every stop to write the contract and we had the valve delivered and ready to crane onboard late Friday afternoon. The division worked day and night over the weekend, and the ship was ready to get underway on Monday morning.

This might sound like a warm and fuzzy good news story, but it is not. A lot of time and effort was wasted as four separate entities scrambled through a paperwork nightmare in order to secure a part that was sitting on the shelf, ready and waiting for payment. The entire division lost two days waiting to install the repair part, not to mention the time required to prepare the contract request document, Sole Source justification, and Urgency Impact statement. The Supply Department had to put other priorities aside and provide constant updates to FLC, while helping the division write (and re-write) the justifications in a manner that would be acceptable to FLC to support an immediate acquisition. The vendor had to provide more information and work through the contracting process, instead of just swiping a credit card. Finally, multiple people at FLC had to drop all other tasks and focus on one new urgent requirement.

If this was an isolated incident, it could be overlooked. However, the Supply Officer interviews from Chapter III suggest that 15% of the contracts submitted to FLC by ships are Sole Source, Urgent contracts.

B.   THE FINDINGS

This project conducted extensive research and comparison of purchase card and contract transactions as well as government and industry practices. Discussions with subject matter experts and high-level stakeholders were conducted. This research discovered the following issues:

(1)   Seventy Five percent of contracts written at FLC are below $25,000. These contracts represent only 3% of the FLC contract dollar spending. Although there are legitimate reasons for creating a contract, the bulk of these purchases are commercial, off-the-shelf (COTS) items, immediately available for sale and do not require special knowledge to safely acquire them.

(2)   Ships do not send very many contracts to FLC. Although suspected from the beginning, it was confirmed when ship Supply Officers provided a list of three to six contracts that covered several years. Since this was prevalent among multiple platforms and coasts, it can be assumed that most ship parts and supplies are generally available in the stock system or are of low enough dollar value to procure using a purchase card.

(3)   There are considerable contracting vehicles available that could increase the effectiveness of unit cardholders and better utilize the experience of contracting personnel. If cost savings from contract reduction measures could allow FLC to allocate resources to establish contracts that multiple units can order against, while ensuring the maximum use of small businesses, it would benefit all parties.

C.   RECOMMENDATION

The procurement rules should be changed to reflect $10,000 as the micropurchase threshold. This would allow more autonomy for operational units to procure what they need, when they need it, for most items; but still provide professional and experienced oversight on larger contracts for competition. In addition to this $10,000 increase, there are several recommended controls to implement.

(1)   A navy enlisted code (NEC) should be established for the Approving Official (AO) position. This position is critical to the success and oversight of a purchase card program. Retaining the knowledge gained and rewarding the efforts of the more proficient AOs would be a significant step in preventing card misuse at future command and future programs.

(2)   Nearly every command in the Navy has a purchase card program; therefore a module within the Logistics Specialist A-School should focus on the rules, restrictions, and specific introductory training about using a purchase card. This segment could include topics like ethics, responsibility, documentation, mandatory sources,

strategic sourcing vehicles, and current best practices. This course is especially crucial for those sailors who do not have experience with a personal credit card or checking account. For sailors heading into the financial management division of a ship, this would serve as both a necessary introduction to government purchasing, as well as provide solid guidelines they could follow in their personal finance actions.

(3)　　Establish an active local training program for Agency Program Coordinators (APC). Charged with providing oversight and guidance, the initial APC training is not sufficient to cover all the duties and responsibilities involved with ensuring compliance in a program that can have as many as 100 purchases in a month. This training should include a mechanism to share and incorporate the "best practices" of APCs in the region and beyond. An effective program can be as simple as a monthly meeting with upper echelon APCs at the TYCOM or ATG building to discuss current concerns and issues.

(4)　　The $10,000 limit should not be an across-the-board increase; it should be an option available. Units could either (1) designate one cardholder to maintain a transaction level to satisfy requirements, or (2) the APC could adjust transaction limits for specific purchases and readjust to a lower amount afterward. Either of these options would reduce the risk to the government, but still provide the flexibility when situations dictate. The practice of managing transaction and monthly limits should be reviewed at least annually and changed as mission requirements dictate.

(5)　　Specific annual ethics training for the purchase card program and similar financial positions should be developed to cover ethical and moral issues that are typical and relevant to the position. The current ethics training is insufficient for financial positions and is much too focused on senior leadership issues to be effective for junior personnel.

Because small business was mentioned consistently as one of the primary reasons for not increasing the purchase limit, there are some further recommendations that can mitigate the concerns, but will create additional restrictions for cardholders.

First, there are two main options available for cardholders that provide access to small business: Department of Defense (DOD) electronic mall (EMALL) and General

Service Administration (GSA) Advantage. Both of these resources are relatively easy to access and procure, however, they are set up for purchasing one of each item and do not provide discounts for buying in bulk. The FLC could use its resources and experience to build more BPAs that cardholders can purchase against and support small businesses. This may create more mandatory sources, and therefore create speed bumps in the buying process; however, in time, the cardholder would learn. In order to make cardholders aware of new options, the FLC would need to disseminate the information to cardholders so they can take advantage of new purchasing vehicles. FLC resources could also provide a mechanism to better promulgate information about local small businesses that could provide ship-ready items.

Second, transactions between $3,000 and $150,000 are currently required to be set aside for small business (Rodden, 2010). If the purchase card limit increased to $10,000, there are two additional measures that could be taken to increase competition and support small business: (1) increase the simplified acquisition threshold (SAT) to $200,000 (for example) so more contract transactions fall to small business or (2) implement a process in the purchase card program where COTS purchases between $5,000 and $10,000 could be purchased by the unit after completing a competition sheet. A competition sheet would require the end user (with Supply Department facilitating, as necessary) to locate three vendors who are capable of providing the requirement. Then, a quick competitive analysis could be performed by the Supply Department and applicable Department Head. The final selection would be justified with a few sentences for auditing and continuity purposes, and provide an official means to document a unit Sole Source selection. The final selection would then be approved by the unit APC or Commanding Officer, the upper echelon APC, or a designated FLC representative, as deemed appropriate. This process, while taking an extra day or two, could ensure due diligence was performed to get a better price and make an effort to rotate vendors.

D.   FURTHER RESEARCH POSSIBILITIES

There are many rules and restrictions within the procurement process; it is impossible change one law without affecting others. There are more Navy commands and government agencies that are each affected by acquisition changes in different ways.

Technology is rapidly changing the ability to collect and use data for decision-making. This research was outside the scope of this project and there are some recommended areas that could be further addressed to ensure a complete examination:

(1)   Seek more end-user data. Since this was a study based on the experiences of an operational Navy Supply Officer, there is a large population of FLC customers that are not represented by this data. Further research addressing the use, extent, and importance of purchase card and contracting from shore-based operational and non-operational commands may provide a better picture of small acquisitions in the Navy.

(2)   Research other government agency purchase card programs. Research for this project uncovered many recent GAO reports and articles about other government entities that are not running a solid, effective purchase card program. The policy–makers for procurement may want to consider selectively increasing purchase card limits to only those agencies which have proven effective controls and have earned the right to take on larger responsibilities.

(3)   Update purchase card software to track small business use. Currently, there is no mechanism (other than a visual inspection) to discern the frequency or amount of purchase cards transactions that are associated with small businesses. If a program could be developed in conjunction with the NIACS codes to sort out purchases made using small businesses, it could improve the data available and justify more or less restrictions on the purchase card purchases over a certain amount.

(4)   Reexamine the Davis Bacon Act of 1931. It is confounding to this author that an 80-year old law, implemented before minimum wage laws were enacted in order to prevent government agencies from taking advantage of desperate laborers, is still dictating public construction purchases above $2,000. Using the consumer price index (CPI), when this law was established in 1931, $2,000 had a purchasing power of more than $30,000 today. A $2,000 contract in 2014 would have same purchasing power as $128 in 1931 (CoinNews, 2014).

It Is Time for an Increase

United States Government procurement is an expensive and over-regulated process that has gone through multiple iterations in the more than 200 years since the country was founded.

> In government contracting, history presents itself as a series of cycles: the country faces a big emergency such as a war, or a major task such as landing a man on the moon; industry steps up to the task; as initial public enthusiasm wanes and the task settles in to performance, complaints about quality and cost ensue; fraud is unearthed and scandal follows, resulting in increased regulation; competition is reduced as companies leave the business; regulations are streamlined to bring competition back. Certain debates recur in each generation as well, and each generation tries to find their own balance: make or buy, protectionism or free trade, strict regulation or ease of administration, appropriate ethical standard, and fair price (Keeney, 2007, p. 18).

As the government is winding down from war and cycling through the next wave of accusations about the wastefulness in acquisition, we should use this opportunity to break the cycle and set new, economical business practices in motion that will better prepare the U.S. for a successful ramp up in a future engagement. Remove unnecessary contracts from FLC oversight and allow operational units to vet an increased number of purchases that they can safely handle. Set up FLC facilities to better manage large and complicated contracts by employing teams to meet the needs of the government and ensure that contracts are managed so they are less susceptible to mission creep and have the manpower to provide oversight and foresight to detect problems before they become an issue. If FLC had the resources to make strategic pre-negotiated vehicles available for operational cardholders it could make purchasing simpler for the cardholder, safer for the government, and enable small businesses to benefit as much as possible.

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